October 10, 2014

BY ELECTRONIC SUBMISSION
AT WWW.FHFA.GOV

Federal Housing Finance Agency
Office of Strategic Initiatives
400 7th Street, S.W.
Washington, D.C. 20024

Re: Request for Input - Single Agency Security Structure

Dear Sir or Madam:

On behalf of the undersigned Mortgage Partnership Finance® Program MPF Governance Committee, of which the Federal Home Loan Banks of Atlanta, Boston, Dallas, Des Moines, New York, Pittsburgh, San Francisco, Seattle and Topeka are members, and on behalf of the Federal Home Loan Bank of Cincinnati as offeror of the Mortgage Purchase Program and the Federal Home Loan Bank of Indianapolis as offeror of the Mortgage Purchase Program (collectively the "FHLBanks"), we appreciate the opportunity to comment on the above-referenced Request for Input regarding the proposed single security structure ("Request for Input") published by the Federal Housing Finance Agency ("FHFA") on August 12, 2014. This letter responds to questions posed by the FHFA in its Request for Input relating to issues on how to preserve "to-be-announced" ("TBA") contracts eligibility and ensure that Fannie Mae Mortgage Backed Securities ("MBS") and Freddie Mac Participation Certificates ("PCs") are compatible with the proposed single security structure. The relevant questions raised by the FHFA are included in this letter along with the corresponding responses.

Introduction

> "There are more than $10 trillion in single-family mortgage loans in the nation. Effectively financing this volume of long-term lending requires access to global capital markets. There are not enough deposits in the country to fund all these mortgages, and the risk management challenges for domestic financial institutions to manage all the associated risks in portfolio are substantial. The U.S. housing market in the future, like the market today, needs access to global capital markets.
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> A critical question for policy makers is how to build, or rebuild, the plumbing necessary to connect global capital market investors with individual families seeking a mortgage to buy a house. With this in mind, consider for a moment the potential roles for the FHLBanks. Already the FHLBanks have demonstrated their scalability. They have also demonstrated their ability to access global capital markets. This was even evident during the height of the liquidity crisis, when the FHLBanks continued to successfully access capital markets, albeit at shorter maturities for a time.

> By issuing debt into global capital markets, the Federal Home Loan Banks raise funds that support housing. This access to global capital markets funds advances, which, in turn, provides a source of funding for mortgages held in members' portfolios. The ready availability of advances also makes those mortgages more liquid than they would otherwise be, thereby reducing the liquidity risk in FHLBank members' mortgage portfolios. It also allows the FHLBanks to issue market-worthy
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> letters of credit, which, in turn, allows members to attract their own funds for use in housing finance…. **As policy makers ponder the future, the FHLBanks will certainly be part of the discussion on the future of housing finance.** The FHLBanks already have strong relationships—including a cooperative ownership structure—to their nearly 8,000 front-line, local lenders. These relationships put the FHLBanks in an important role as housing market intermediaries. This role makes the FHLBanks well suited to be part of an evolving housing market, especially when considering the role of community-based depository institutions in that evolving market. **Furthermore, as market intermediaries, the FHLBanks now serve as facilitators in the securitization process, collecting mortgage loans from members for sale in the secondary market."** (emphasis added)
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> -Edward DeMarco, former Acting Director, FHFA

The Federal Home Loan Bank of Chicago ("FHLBC") developed the Mortgage Partnership Finance® ("MPF") Program to allow the FHLBC and participating FHLBanks (the participating FHLBanks collectively, the "MPF Banks") to invest in mortgages to help fulfill their housing mission and provide an additional source of liquidity to members. The current MPF Banks are the FHLBanks of: Atlanta, Boston, Chicago, Dallas, Des Moines, New York, Pittsburgh, San Francisco, Seattle, and Topeka. The FHLBanks of Cincinnati and Indianapolis, offer individual Mortgage Purchase Programs ("MPP") (collectively, "MPP Banks"). The MPP Banks' MPP, as is the case with the MPF Program, helps the MPP Banks to fulfill their housing mission and to provide an additional source of liquidity to members by providing them an outlet through which to sell mortgage loans in the secondary market.

The MPF Banks and MPP Banks applaud the FHFA in its vision and progress toward merging two long-standing benchmark mortgage backed security programs: the Fannie Mae MBS and the Freddie Mac PC into a common new "Single Agency Security". We believe this process is a necessary next step toward ensuring that all American homeowners will continue to receive the same thirty-year, fixed-rate mortgage at the best possible rates over the long-term.

Our purpose in responding to the August 12, 2014 Request for Input is to provide feedback on the proposal, especially as it relates to the MPF Banks' 17-year history and the MPP Banks' 14-year history of participation in the residential secondary mortgage market through their respective programs. The goal of our response is to ensure that the 7500-plus members of the FHLBanks continue to have access to the future secondary mortgage market through a benchmark security, the Single Agency Security and that ultimately mortgage borrowers from our member institutions receive the lowest possible national mortgage rate available in the market, regardless of the size of the lending institution. The Single Agency Security is a step in that direction, if *all* active market participants of the mortgage market will become served by this common mortgage-backed security.

In reviewing the Request for Input, the Single Agency Security platform would be enhanced (i.e., larger, more heterogeneous and available to more market participants) if all three housing government sponsored entities ("GSEs") — the FHLBanks, Fannie Mae and Freddie Mac — participate in the Single Agency Security. For example, in 2012, FHLBank members originated $1.2 trillion in mortgages. By including the FHLBanks into a future Single Agency Security, thousands of our members will receive the low rates, liquidity and connection to the secondary markets for their mortgages that has not always been available without having a direct relationship with Fannie Mae or Freddie Mac. We believe our responses to the questions below are consistent with our FHLBank cooperative goals of delivering the best possible home financing solutions to our members and their customers in all twelve FHLBank Districts.

Comments on behalf of the MPF Banks and MPP Banks.

***Question 1*. What key factors regarding TBA eligibility status should be considered in the design of and transition to a Single Agency Security?**

We understand that the FHFA is seeking market feedback on an efficient transfer mechanism to blend the existing Fannie Mae MBS and Freddie Mac Participation Certificate ("PC") programs into one new Single Agency Security. However, our experience in the residential secondary market, our vision for the future of housing finance and our status as a GSE leads us to recommend inclusion of the FHLBanks as an eligible issuer and/or seller under the future Single Agency Security.

The Single Agency Security is a key first step toward the creation of a benchmark Agency MBS security which has to serve the entire mortgage market. *We also believe that this proposal, at its heart, will help to create a future mortgage market with reduced GSE competition and increased GSE cooperation*. The creation of a new unified government-sponsored enterprise Single Agency Security, with the Common Securitization Platform or CSP acting as agent, can serve to raise liquidity in the future MBS marketplace for all participants. As discussed in the FHFA 2014 Scorecard goals for Fannie Mae, Freddie Mac and Common Securitization Solutions ("CSS"), *"[i]n addition, this work should allow for the option and the integration of additional market participants in a future system."* (emphasis added).

The MPF Banks have built a solid 17-year history via the MPF Program and the MPP Banks a solid 14-year history, via their MPP, as active secondary mortgage market participants. However, without access to efficient securitization outlets, the necessity to rely principally on balance sheet loan products, and the limitation of mortgage asset accumulation due to safety and soundness considerations, the MPF Program's and the MPP Banks collective mortgage purchase volume has been lower than that of the other housing GSEs, as shown on the table below[1].

Table 1: Purchases by FHLBanks, Fannie Mae, Freddie Mac, and All Single-Family Originations ($billions)

Year	FHLBank Purchases	Fannie Mae Purchases	Freddie Mac Purchases	Single-Family Originations
1998	$9.6	$409.2	$288.3	$1,656
1999	$9.4	$370.1	$272.5	$1,379
2000	$14.5	$259.6	$207.4	$1,139
2001	$19.2	$615.3	$475.1	$2,243
2002	$45.2	$1,096.8	$650.7	$2,854
2003	$91.4	$1,745.8	$834.9	$3,812
2004	$25.6	$725.2	$494.6	$2,773
2005	$14.3	$612.3	$581.9	$3,027
2006	$6.3	$603.0	$502.0	$2,980
2007	$8.3	$746.1	$577.7	$2,430
2008	$12.3	$631.4	$460.0	$1,485

Source: FHLBank data; Fannie Mae 10-Ks, 2003, 2004 and 2009; Freddie Mac Monthly Volume Summaries; Freddie Mac Annual Report, 2001 and 2004; and Mortgage Bankers Association, *Mortgage Originations Estimates*, released March 24, 2009.

Notes: Fannie Mae and Freddie Mac purchases are primarily single-family mortgages, but also include some multi-family mortgages. Purchases for Fannie Mae and Freddie Mac equal the total retained portfolio purchases plus MBS/Participation Certificates issued, less purchases of MBS/Participation Certificates into the retained portfolio. Data prior to 2002 are prior to restatement.

Founded in 1932, the FHLBanks have never securitized residential loans, but in 2003 the FHLBC facilitated two separate MPF Shared Funding® securitization transactions totaling approximately $1 billion. Despite this lack of securitization activity, FHLBank members have come to rely on the FHLBanks as a partner for selling conventional, conforming 30-yr and 15-yr mortgages. Today, the MPF Program has over 1500 registered member participants or Participating Financial Institutions ("PFIs"), the MPP of Cincinnati has 235 approved PFIs and the MPP of Indianapolis has 112 approved PFIs.

As a market benefit, adding another GSE improves market size, heterogeneity, liquidity and greater cooperation to create large Single Agency Security pools, while adding another sale option for lenders. We believe adding the FHLBanks as a potential component of the new Single Agency Security will energize community banks and financial institutions throughout the nation. Our aim is to give our FHLBank members an equal seat at the table regarding mortgage pricing and execution as available through America's primary mortgage-backed security, the Single Agency Security.

If the FHLBanks, through the MPF Program and MPP, were included as an *issuer or seller* under the Single Agency Security, our desire to do so is under an amendment to the Request for Input ("RFI") "first-level securitization" rule which requires underlying Single Security mortgage loans to be either 100% by Fannie Mae or 100% by Freddie Mac. Our proposal is to permit the FHLBanks to sell mortgages, in the future, either directly under the Single Agency Security, or to

[1] "Securitization of Mortgage Loans by the Federal Home Loan Bank System", FHFA, Report to Congress, July 30, 2009

Fannie Mae or to Freddie Mac for inclusion under their Single Agency Security programs. This would create several Single Agency Security structural benefits:

1. Quality of the GSE Guaranty.

    i. As GSEs, the FHLBanks share joint and several liability exposure under their consolidated obligation debt issuance. We do not believe there would be any negative impact as GSEs along with Fannie Mae and Freddie Mac ("the Enterprises"), in the quality of the guaranty made to Single Agency Security investors. Today, most MBS pricing differences between Fannie Mae and Freddie Mac are related to either prepayments or liquidity concessions, not "guaranty" differences. In the future, if the market makes distinctions by "GSE seller type" into the Single Agency Security, we believe any distinction drawn about the FHLBanks would be minor. This holds true in a future MBS marketplace whereby the Enterprises either remain under a conservatorship status or exit conservatorship and move into receivership, or, if conditions improve, the Enterprises exit conservatorship and become independent competitors once again. While the new single security would not be directly cross-collateralized by all the GSEs, the Single Agency Security would be designed to have specifications and capital attributes applicable to all GSEs so that market will understand that the Single Agency Security generally has uniform market standards to obtain best executions. With the FHLBanks, Fannie Mae and Freddie Mac loans selling into a uniform platform with uniform security issuances, this might serve as a future risk mitigation tool regarding the Single Agency Security guaranty risk FHLBank inclusion also offers the benefit of reducing market dominance of Fannie Mae and Freddie Mac, thereby potentially reducing systemic risk.

2. Pool Size.

    i. Inclusion of FHLBanks into the Single Agency Security can serve as a useful means to achieve larger pool size, bolstering Single Agency Security liquidity for MBS investors and broadening participation by community banks and other FHLBank members.

3. Pool Heterogeneity.

    i. We believe investors place a firm value on MBS pool traits and diversification. Inclusion of the FHLBanks should serve only to bolster the loan trait diversity (geography, origination channel, loan purpose, etc.) within Single Agency Security pools and not cause any disruption in investment performance.

4. Prepayments.

   i. Inclusion of the FHLBanks should not negatively impact future prepayment performance of Single Agency Security pools. On average, community bank loan originations tend to be "retail" originations which have a history of exhibiting less interest-rate sensitive prepayments than loans originated under larger bank wholesale or correspondent loan origination channels.

5. Mortgage Rates.

   i. Inclusion of FHLBanks into the Single Agency Security grants access to more community banks to the secondary markets, and we believe a significant benefit under this approach will be modestly lower mortgage rates for local communities.

6. TBA Deliverable.

   i. An important detail in the Request for Input appears to be how traders will treat the Single Agency Security deliverable that is stated to be either *100% Fannie Mae or 100% Freddie Mac loans*. Given that each Enterprise will maintain separate origination and servicing guidelines, and potentially separate lender account bases, we are not convinced the Single Agency Security investor or trader will be indifferent between a Fannie Mae- or Freddie Mac- only TBA delivery[3]. Adding a third option of FHLBank member loans into either Enterprise's Single Agency Security deliveries might serve to "smooth out" some of the delivery differences or risks between the proposed 100% concentration Fannie Mae or Freddie Mac pools.

7. Specified Pools.

   i. The MBS specified pool market has played a large and important role in the MBS marketplace from the mid-1990s through today. Given the size and growth of the Fannie Mae/Freddie Mac specified pool universe, the size of the resultant TBA market deliverable is only likely to remain constant or to contract. If this occurs, boosting the size of the float of TBA, through increased pool sizes, is important. One dealer has estimated that holders of legacy Freddie Mac specified pools may not have incentive to convert their securities into the new Single Agency Security since they would lose the payment delay and not potentially benefit from the gained liquidity of the new Single Agency Security TBA[4].

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[3] "FHFA Requests Input on Single Agency MBS Structure", Wells Fargo Securities, LLC- Structured Products Research, August 22, 2014

[4] "FHFA Asks for Input on the Single Security", J.P. Morgan- Securitized Products Weekly, August 13, 2014.

8. MBS Portfolio Diversification.

   i. From an institutional investor perspective, investors typically are bound by "name" concentration limits in their portfolios. For example, a portfolio requirement may place a limit on the amount of one name that is owned as a part of their portfolio. This tends to be more prevalent in corporate bond portfolios than in mortgage portfolios. However, to the extent that owning a high concentration of "Fannie Mae only" or "Freddie Mac only" MBS pools reduces investment portfolio diversification, adding a third name benefits investors[5].

Question 2. What issues should be considered in seeking to ensure broad market liquidity for the legacy securities?

The FHLBanks do not have any legacy MBS or other securities that would need to be incorporated into the new Single Agency Security. For conventional, conforming loans purchased by FHLBanks and originated by FHLBank members, we seek the ability to either immediately securitize or to hold those loans on balance sheet for later re-sale into the Single Agency Security.

Unlike the Gold/FN Swap, which has a long and volatile history, the FHLBanks can meld into the Single Agency Security without any legacy issues. Thus we feel that FHLBank inclusion would be a good next step in housing finance reform as the new benchmark MBS program is built on the bedrock of three GSEs, not just two. This inclusion helps advance FHFA stated goals (e.g. the CSS 2014 Scorecard) with likely minor FHLB-contributed legacy issues.

Question 3. As discussed above, this is a multi-year initiative with many stakeholders. What operational, system, policy (e.g., investment guideline), or other effects on the industry should be considered?

The MPF Banks have 17 years of history operating and participating in the MPF Program which have allowed all the MPF Banks to develop operational and technological infrastructure to operate daily in the secondary mortgage market. With 14 years of operating history, each MPP Bank has also developed the operational and technological infrastructure to operate daily in the secondary mortgage market.

The FHLBC and Fannie Mae have also already executed on a strategy, since 2008, to work together and create Fannie Mae MBS securitizations under the MPF Xtra product. MPF Xtra was rolled out in 2008 and has exceeded $22.6 billion in volume to date. These loans are securitized under Fannie Mae's MBS program. Inclusion of MPF Xtra loans has not negatively affected the value or liquidity of Fannie Mae MBS. Together Fannie Mae and the FHLBC have coordinated on the underwriting and servicing guidelines, pricing and other operational aspects of the product, demonstrating the FHLBC's ability to meld our loans into other GSE securities.

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[5] "FHFA Sets the Ball in Motion on Single Security", Bank of America Merrill Lynch- Agency MBS Alert, August 13, 2014.

Other Single Agency Security seller/issuer requirements such as a Pooling and Servicing Agreement, remittance, bond administration and master servicing are all aspects of inclusion that the FHLBC and the MPP Banks are ready to work through in this multi-year effort.

Question 4. What can be done to ensure a smooth implementation of a Single Agency Security with minimal risk of market disruption?

Entrance into the Single Agency Security would provide the FHLBC and the MPP Banks with a new tool to help manage their mortgage product offerings and would help the MPF and MPP Banks to continue to broadly serve members with reliable, liquid access to the secondary mortgage market. *FHLBank inclusion also allows for more competition, which is generally a positive for the markets*.

Success in the future Single Agency Security will come from robust issuance, market accepted common practices and the ability of the Single Agency Security to accommodate a wide variety of interests and serve them over the long-term. In essence, the Single Agency Security must be created with one clear goal- to maintain a single national mortgage market in the United States which caters to all lenders and investors, both large and small[6].

Unlike other potential proposals, we do not anticipate any "unintended consequences" to come about as a result of FHLBank inclusion into the Single Agency Security. There is no market disruption as the FHLBanks are well known participants in mortgage markets and, as GSEs, our inclusion likely represents a positive advance, not retraction, to greater liquidity in the secondary mortgage market.

Our request is to amend the first-level securitization rule which requires the underlying mortgage loans to be either 100% by Fannie Mae or 100% by Freddie Mac, to allow for the inclusion of FHLBank sold mortgage loans.

Under current law, one or more FHLBanks are authorized to guarantee the payment of principal and interest for the mortgage-backed securities issued as part of a securitization program. Section 11(a) of the Federal Home Loan Bank Act ("FHLBank Act") (12 U.S.C. §1431(a)) provides that the FHLBanks, subject to rules and regulations prescribed by the FHFA, may borrow and give security and pay interest thereon, to issue debentures, or other obligations upon such terms and conditions as the FHFA may approve. The authority in Section 11(a) provides the FHFA with the latitude to permit the FHLBanks to create securitization programs to the extent that the guarantee provided is an "obligation," such as this term is used in the FHLBank Act.

As a multi-year effort, adequate time will elapse for the FHLBanks to become a third contributing member of the new Single Agency Security MBS platform. The addition of FHLBanks into the Single Agency Security is a unique and important opportunity for America's transitioning housing finance marketplace which will maintain market continuity and liquidity for investors while

[6] The GSE Common Securitization Platform, Thomas Stanton, John Hopkins University, May 14, 2013.

bringing in more sellers and servicers into the future benchmark MBS program. This creates a much more unified and successful housing finance system with all housing GSEs operating on the same Single Agency Security platform.

We appreciate the opportunity to provide comments on this important Request for Input and appreciate your consideration of these comments.

Sincerely,

MPF Banks Governance Committee

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