Partnership Is Our Middle Name.

October 13, 2016

Federal Housing Finance Agency
Office of Financial Analysis and Modeling,
400 Seventh Street SW
Ninth Floor
Washington, D.C. 20219

**Re: Single Family Credit Risk Transfer Request for Input**

To Whom It May Concern:

The Federal Housing Finance Agency (FHFA) has requested feedback on its *Single Family Credit Risk Transfer Request for Input* published on June 29, 2016 (the RFI). The undersigned FHLBanks support front-end credit risk transfer (FECRT) programs for all housing government sponsored enterprises (GSEs), including the Federal Home Loan Banks (FHLBanks), and appreciate the opportunity to provide the following views for your consideration.

FHLBanks have been successfully operating credit risk sharing programs in partnership with our member financial institutions for more than 19 years through our Mortgage Partnership Finance® (MPF®) Program as authorized under the Acquired Member Asset (AMA) regulation[1] (MPF Program). The MPF Program includes FECRT products that transfer credit risk to the private sector through the use of member-provided credit enhancements and, at times, mortgage insurance. The unique risk sharing structure of the MPF Program has provided tremendous benefits for our members through competitive upfront pricing and future fee income based on the performance of the loans with nearly 1,600 community lenders across the country funding more than 1.43 million mortgage loans worth approximately $208 billion under the MPF Program. As of September 30, 2016, members participating in the MPF Program collectively have been paid $744 million of fees from the FHLBanks to manage the credit risks of their loans (in lieu of paying guarantee fees to another entity) while experiencing only $29 million of actual credit related losses beyond those provided for within the MPF structure. Additionally, in recent years, many of these FECRT acquisitions by the FHLBanks have been from smaller lenders such as community banks and credit unions.

As the FHFA considers ways to improve FECRT programs of Fannie Mae and Freddie Mac (the Enterprises), we urge the FHFA to consider the following two comments. First,

[1] 12 C.F.R. § 955

FHLBanks should be afforded similar authority as the Enterprises to develop new FECRT programs for our MPF Program to mitigate exposure to credit risk in ways that are consistent with the FHFA's credit risk transfer principles[2] described in the RFI. For example, as the Enterprises implement innovations such as greater use of credit insurance products, including supplemental mortgage insurance, as part of the FECRT program, the FHLBanks would like the option to use similar structures in their MPF Programs. Allowing the FHLBanks' MPF Program to include such structures would benefit the community banks and credit unions, including those members who use the FHLBanks' MPF Program.

While the operations of the Enterprises and the FHLBanks vary in important ways, we each need to ensure that credit risk is managed in a safe and sound manner. All housing GSEs need the ability to manage credit risk with innovation, creativity and flexibility. In today's competitive secondary mortgage market, the GSEs should be on equal footing regarding FECRT programs. An originator's decision to sell to one GSE over another should not be based on the limitation of authority relative to FECRT programs, but rather on universal factors such as loan products, service and pricing. A level GSE playing field with regard to FECRT programs also would benefit consumers by creating an environment where originators have access to similar products and multiple loan executions, helping to ensure the lowest possible rate for a mortgage loan. An uneven playing field could also negatively impact the FHLBanks' Core Mission Assets[3] and our ability to fulfill our mission.

Second, our demonstrated success with credit risk sharing mortgage programs, extensive experience with letter of credit products, and our unique role in serving smaller community-focused financial institutions put us in an ideal position to function as an intermediary between the Enterprises and smaller mortgage lenders. As a counterparty, the FHLBanks are well positioned to ensure the performance of originator credit enhancement obligations which are required to be fully collateralized under the AMA Regulations and the FHLBanks take a first lien position in such member assets. Our MPF Program has been actively used by over 800 community financial institutions in 2016, many of which may be interested in participating in other FECRT programs. If we are able to develop and implement mortgage aggregation programs allowing these small lenders to sell their loans to the Enterprises using a FECRT structure, we can help ensure the full benefits of such programs are available to FHLBank members of all sizes.

The foregoing comments are aimed at securing the necessary flexibility so the FHLBanks may continue providing mortgage liquidity to our members in support of our housing finance mission and responding to changes in the secondary mortgage market with appropriate product

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[2] *See* Credit Risk Transfer Principles starting on page 3 of the RFI (reduce taxpayer risk, economically sensible, continuity of core business, repeatable, scalable, counterparty strength, broad investor base, stability through economic and housing cycles, transparency and level playing field).

[3] 12 CFR § 1265.2

innovation. Our comments also recognize the need for an aggregator that is committed to serve the small lender and provide continuity to the role that FHLBanks play today. We appreciate the FHFA's consideration of these views and would welcome the opportunity to further explore these concepts in regard to the FHLBank MPF Program with staff from the Office of Financial Modeling as well as staff from the Division of Bank Regulation.

Sincerely,
The Federal Home Loan Banks listed below

**Federal Home Loan Bank of Atlanta**

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President and Chief Executive Officer

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