

# Securitization by Federal Home Loan Banks Would Provide More Liquidity in a Safe and Sound Manner

## MBA RECOMMENDS

Congress should give explicit authorization to allow the Federal Home Loan Banks to securitize and sell mortgages in secondary mortgage market.

## BACKGROUND

The Federal Home Loan Bank (FHLBank) System's 12 regional banks were chartered by Congress to provide a stable source of funding for their member financial institutions for use in housing, community and economic development. During the current period of economic turmoil, the FHLBanks have been a steady channel of liquidity to help meet the needs of community bankers and mortgage lenders.

The FHLBanks' primary activity is to lend money to member banks in the form of advances. The FHLBanks raise money by issuing bonds for sale to domestic and international investors. As government sponsored enterprises, the FHLBanks' implicit government guaranty enables them to borrow below the rates charged to other financial institutions.

In addition to providing advance funds to their members for the purpose of making mortgages, many FHLBanks also buy mortgages from member banks through various mortgage purchase programs. These programs are another liquidity channel for their members' housing finance needs.

Currently, FHLBanks are not explicitly authorized to pool the loans they purchase into securities for sale in the secondary market. As a result, FHLBanks cannot remove mortgage assets from their balance sheets. Since

the FHLBanks must comply with capital requirements for assets such as mortgages held on their balance sheets, they would not be able to expand these programs without obtaining additional capital from their members, many of whom also face challenges in raising capital. To ensure that community banks can continue to rely on their FHLBanks to be a viable mortgage purchaser, the FHLBanks must have the ability to move these mortgages off their books by selling them as securities in the secondary market.

Existing law provides ample authority for the regulator of the FHLBanks to authorize new funding techniques for the mortgage programs; however, the Federal Housing Finance Board, the FHLBanks' regulator prior to the Federal Housing Finance Agency (FHFA) was created, has taken the position that the decision to permit FHLBank securitization is a matter to be determined by Congress.

MBA supports the FHLBanks and efforts by them to fulfill their mission to support housing through providing liquidity to their member institutions. MBA further believes securitization is a safe and sound solution for providing that liquidity without putting undue stress on the FHLBanks' balance sheets. In fact, Congress and the GSEs' regulator have recently expressed the need to have Freddie Mac and Fannie Mae mitigate risk by reducing the size of their mortgage portfolios. This is also an action the FHLBanks could utilize as a safety and soundness measure.

Although MBA supports giving clear legislative authority to the FHLBanks to issue securities, MBA recognizes that providing the FHLBanks' members mortgage-collateralized advances is their primary purpose. Therefore, any expansion of the FHLBanks in purchasing and securitizing mortgages must not jeopardize the efficacy of their advance lending programs. Furthermore, a securitization initiative by any FHLBank should be accompanied by careful safety and soundness controls so as not to place undue risk on the FHLBank system as a unit.

For these reasons, as Congress considers housing finance reform, MBA urges it to adopt legislation that gives clear and explicit permission for FHFA to allow the FHLBanks to securitize and sell mortgages into the secondary mortgage market.



1331 L Street, NW  
Washington, DC 20005  
[www.mortgagebankers.org](http://www.mortgagebankers.org)