

## FHLB Government Mortgage-Backed Security Program: Facilitating Secondary Market Access

The Federal Home Loan Bank (FHLB) system offers a variety of tools to enhance mortgage finance liquidity, including the Government Mortgage-backed Security (MBS) product offered under the Mortgage Partnership Finance (MPF) Program.<sup>1</sup>

The MPF Government MBS product can facilitate access to the secondary market for small and midsize national banks and federal savings associations (collectively, banks). Banks can sell federally guaranteed or insured mortgage loans to the FHLB of Chicago. The Chicago FHLB, in turn, aggregates the loans it purchases and pools them into securities guaranteed by the Government National Mortgage Association (Ginnie Mae).

By offering the MPF Government MBS product, the MPF Program provides liquidity, a reliable secondary market conduit, and operational support to participating banks. The MPF Government MBS product can put community lenders in a better position to offer competitive mortgage products through the federally insured or guaranteed single family programs of the Federal Housing Administration (FHA), the U.S. Department of Veterans Affairs (VA), and the U.S. Department of Agriculture (USDA) Rural

Housing Service (RHS).<sup>2</sup> The guarantee or insurance programs offered by these agencies play a significant role in providing credit to underserved borrowers, including minorities, first-time buyers, and low- or moderate-income borrowers.

Choosing the MPF Government MBS product may allow community banks to originate government mortgages sustainably and profitably while continuing to fulfill their mission by providing mortgage credit alternatives for their customers.

### Background

The federal government has a number of mortgage insurance and guaranty programs designed to foster homeownership, such as those available through the FHA, the VA, and the RHS.<sup>3</sup>

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<sup>2</sup> This fact sheet refers to RHS Single Family Housing Direct Home Loans (also known as the “Section 502 Direct Loan” program. For further details, refer to RHS [Section 502 Direct Loan Program](#).

<sup>3</sup> Note that Regulation Z, which implements the Truth in Lending Act, provides a presumption that creditors that originate qualified mortgages (QMs) have complied with the rule’s ability-to-repay requirements. It provides a temporary category of QMs for loans that satisfy the underwriting requirements of, and are therefore eligible to be guaranteed or insured by, the VA, the U.S. Department of Housing and Urban Development (HUD), the USDA, or the RHS. See 12 CFR 1026.43(e)(4). This temporary category will phase

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<sup>1</sup> See Mortgage Partnership Finance Program, <https://www.fhlbmpf.com/Pages/default.aspx>

Nearly all newly originated federally insured or guaranteed mortgage loans are issued and sold in the secondary market as Ginnie Mae MBS. Ginnie Mae is a government-owned corporation within the U.S. Department of Housing and Urban Development (HUD). Ginnie Mae does not purchase loans; its role is limited to guaranteeing the timely payment of principal and interest to MBS investors backed by federally insured or guaranteed loans. Ginnie Mae MBS are backed by the full faith and credit of the U.S. government, which results in increased liquidity and often more attractive pricing of these securities.

A mortgage originator typically assembles a pool of government-backed mortgages and then issues a Ginnie Mae MBS, the shares of which are purchased by investors. To gain approval to be a Ginnie Mae MBS issuer, a bank must meet certain requirements, including liquidity, minimum net worth, and institution-wide capital.<sup>4</sup>

A community bank that originates mortgages on a smaller scale may not originate a sufficient volume of federally insured or guaranteed mortgage loans to efficiently issue a Ginnie Mae MBS. In such a case, a bank may choose to access the secondary market by selling individual loans to an existing Ginnie Mae MBS issuer. This

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out as the federal agencies issue their own QM rules or on January 10, 2021, whichever occurs first. HUD adopted a final rule, effective January 10, 2014. See 78 Fed. Reg. 75215 (December 11, 2013). The VA similarly adopted an interim final rule. See 79 Fed. Reg. 26620 (May 9, 2014). The RHS has proposed its QM rule, but until that rule is finalized, the standard in Regulation Z will continue to apply to RHS loans. See 80 Fed. Reg. 11950 (March 5, 2015).

<sup>4</sup> A Ginnie Mae issuer must demonstrate adequate organizational, financial, procedural, quality control, and other necessary functions to qualify for participation in an MBS program. For further details, refer to Ginnie Mae's [Issuer Resources](#).

option, however, may not achieve the best price for the originating lender.

### **Who Can Participate?**

The MPF Government MBS product is available to any bank that is a member of one of the regional FHLBs that participate in the MPF Program and have chosen to offer the MPF Government MBS product.<sup>5</sup> Each FHLB approves its own members to participate in the MPF Program independent of the FHLB of Chicago.

In addition, a participating bank must have met the eligibility standards of the FHA, VA, or RHS section 502 program to originate loans insured or guaranteed under those programs. The loans sold by a participating bank into the MPF Government MBS product must be fixed-rate mortgages insured or guaranteed by one of those agencies.

The MPF Government MBS product also requires banks that want to retain the loan servicing to have the ability to service and report loan activity under a scheduled/scheduled remittance structure.<sup>6</sup>

For banks that do not want to service the mortgages or do not have the resources to meet the MBS servicing requirements, a servicing released option is available under the MPF Government MBS product.

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<sup>5</sup> The 11 FHLBs are regionally based and serve 50 states and four U.S. territories. Presently, nine of the regional FHLBs participate in the MPF program.

<sup>6</sup> A scheduled/scheduled remittance means that the lender remits scheduled interest (net of servicing fees) and scheduled principal due, whether or not payment is collected from the borrower.

## **What Are the Advantages of Using the MPF Government MBS Product?**

The MPF Government MBS product offers several benefits. In many instances, lenders obtain a better price for their loan(s) through the MPF Government MBS product than through the sale of whole loans elsewhere. Another advantage is that a community bank can deliver a small volume of loans; even a single loan may be sold to the FHLB of Chicago. In addition, loan purchase can occur soon after the loan closes, allowing the bank to quickly move the loan off its balance sheet.

Having the FHLB of Chicago act as the Ginnie Mae MBS issuer allows community banks to eliminate costs and barriers that they would otherwise face in becoming Ginnie Mae issuers themselves. This approach could be particularly attractive for lenders that have relatively low mortgage origination volumes.

The MPF Government MBS product allows a bank to manage the underwriting and closing process. Banks have the option to sell loans on a servicing-released basis or retain servicing. If a bank chooses to retain servicing, it can preserve the customer relationship. In addition, by retaining servicing, a bank earns fees for loans placed in a Ginnie Mae MBS that can range from 19 basis points to as much as 56.5 basis points.<sup>7</sup>

Alternatively, a community bank can sell loans to a private loan aggregator that pools

loans into a Ginnie Mae MBS. Aggregators often require the sale of a loan's servicing rights, and they may pay less than market value in small-volume transactions. Some aggregators also impose additional underwriting restrictions on the loans they are willing to purchase. These additional requirements, which often are referred to as overlays, might include higher credit score cutoffs, lower debt-to-income ratios, or larger down payments than are required by the government loan program.

The MPF Government MBS product does not impose any additional underwriting overlays, so if a loan meets FHA, VA, or RHS guidelines, the loan is eligible for sale under the MPF program. Loans must also meet each of these particular mortgage programs' loan requirements such as maximum loan amount, loan-to-value limits, and minimum loan terms according to the applicable government agency program guidelines.

## **Considerations for Implementing a Secondary Market Strategy Using the MPF Government MBS Product**

Using the MPF Government MBS product, the FHLB of Chicago MPF Program accepts delivery of purchase and refinance loans, including streamlined refinance loans that are insured or guaranteed by the FHA, by the VA, or under the RHS section 502 program. To be eligible for purchase, loans must be fixed-rate, fully amortizing, one- to four-unit residential mortgages (either a primary or second home).

The MPF Program can purchase a loan soon after closing, but delivery of initial certification and data validation documents is required within seven calendar days of purchase. Loan presentment is completed using the Uniform Loan Delivery Dataset

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<sup>7</sup> The coupon rate on a Ginnie Mae I MBS is 50 basis points lower than the loan rate to the borrower. The difference is split between the servicer, which earns up to 44 basis points, and Ginnie Mae, which receives six basis points in guaranty fees. For a Ginnie Mae II MBS, there is a range in the permissible amount of servicing that is retained, from 19 basis points to 56.5 basis points.

file fields.<sup>8</sup> A bank that chooses to retain servicing must comply with the servicing guidelines of the FHA, the VA, or the RHS, as applicable.

The FHLB of Chicago is responsible for the monthly reporting to Ginnie Mae. Servicers also must manage documents and certifications with a document custodian and administer the custodial accounts for principal and interest, taxes, and insurance.

### Resources on the Web

#### OCC

[“FHA’s 203\(b\) Purchase Money Loan Guarantee Program,”](#) fact sheet

[“USDA Rural Housing Finance Programs: Loan Guarantee, Leveraged Loan, and Multifamily Loan,”](#) fact sheet

**Mortgage Partnership Finance Program**  
[MPF Government MBS](#)

#### Ginnie Mae

[“Doing Business With Ginnie Mae”](#)

**U.S. Department of Housing and Urban Development, Federal Housing Administration**  
[Federal Housing Administration Single Family Mortgage Insurance Programs](#)  
[FHA Resource Center](#)

**U.S. Department of Agriculture**  
[Section 502 RHS Direct Loan Program](#)

**U.S. Department of Veterans Affairs**  
[VA home loan benefits](#)

#### Disclaimer

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<sup>8</sup> Ginnie Mae, [“Adoption of MISMO/ULDD Data Standards,”](#) APM 10-23 (December 8, 2010.) See also Federal Home Loan Bank, [“MPF Program Detailed Reference List of Required or Conditionally Required ULDD Fields,”](#) PFI Advisory 2016-114 (April 26, 2016) and [“ULDD Phase 2 Implementation,”](#) PFI Advisory 2016-107 (February 18, 2016).