Federal Home Loan Bank of Boston
Federal Home Loan Bank of Chicago
Federal Home Loan Bank of Dallas
Federal Home Loan Bank of Des Moines
Federal Home Loan Bank of New York
Federal Home Loan Bank of Pittsburgh
Federal Home Loan Bank of Topeka

April 7, 2008

VIA EMAIL: regs.comments@federalreserve.gov
Ms. Jennifer J. Johnson, Secretary
Board of Governors of the
Federal Reserve System
20 Street & Constitution Avenue, N.W.
Washington, D.C. 20551

Re: Docket No. R-1305

Dear Ms. Johnson:

This letter addresses the Board of Governors of the Federal Reserve System's ("Federal Reserve") request for comments on the proposed rule regarding "Truth in Lending" published in the Federal Register on January 9, 2008 ("Proposed Rule"). The Federal Home Loan Banks of Boston, Chicago, Dallas, Des Moines, New York, Pittsburgh and Topeka ("Banks") welcome the opportunity to comment on this Proposed Rule.

The Proposed Rule creates several new regulatory protections for consumers in the residential mortgage market through amendments to Regulation Z, which implements the Truth in Lending Act ("TILA") and the Home Ownership and Equity Protection Act ("HOEPA"). The Banks have reviewed the Proposed Rule in light of the Mortgage Partnership Finance® ("MPF®") Program offered by the Banks to their community bank, thrift, credit union and insurance company members (each a participating financial institution or "PFI"). The purpose of this letter is to inform the Federal Reserve of the potential impact that the mortgage broker disclosure requirements of the Proposed Rule would have on the retail mortgage loan operations of PFIs that obtain funds for mortgage loans from the Banks and in exchange, share in the risk of loss of such loans.

Mission of the Federal Home Loan Banks

The Banks are seven of the twelve Federal Home Loan Banks ("FHLBs") which are government sponsored enterprises providing housing finance to more than 8,000 member commercial banks, savings institutions, credit unions and insurance companies throughout the Nation. The mission of the FHLBs is to safely and soundly support mortgage finance through a variety of programs and services, primarily credit programs to their financial institution membership, so that the members can provide economical residential mortgage financing in all phases of widely varying financial and economic cycles. With combined assets of approximately $900 billion, the FHLBs' credit products include floating and fixed-rate loans, the MPF Program and related products to finance home mortgage portfolios. The FHLBs also provide funding for affordable housing and community development activities chartered by Congress and privately owned by member financial institutions.

The MPF Program is authorized under the Federal Housing Finance Board's ("Finance Board") Acquired Member Asset ("AMA") Regulation (12 CFR Part 955) as falling within the advances (lending) authority of the FHLBs. In the preamble to the AMA Regulation, the Finance Board describes AMA as:

> [W]hole loans … that a Bank may acquire from or through its members … in a transaction that is in purpose and economic substance functionally equivalent to the business of making advances in that: (1) It allows the member … to use its eligible assets to access liquidity for further mission-related lending; and (2) all, or a material portion of, the credit risk attached to the assets is being borne by the member ... (page 43974 of Federal Register Vol. 65, No. 137, July 17, 2000)

Background of the MPF Program

In 1997, the Federal Home Loan Bank of Chicago ("FHLBC") introduced the MPF Program to give PFIs of the Banks an alternative when originating one-to-four family residential mortgage loans. The MPF Program supports the Banks' housing finance mission by aligning the various risks associated with mortgage finance in an optimal way. As a secondary mortgage market structure under which the Banks purchase and fund eligible mortgage loans from or through PFIs ("MPF Loans"), the MPF Program allows PFIs to most economically manage their mortgage finance programs.

The MPF Program is designed to allocate the risks of MPF Loans among the Banks and PFIs and to take advantage of their respective strengths in managing these risks. PFIs have direct knowledge of their mortgage markets and have developed expertise in underwriting and servicing residential mortgage loans. By allowing PFIs to originate MPF Loans, whether through retail or wholesale operations, and to retain or acquire servicing of MPF Loans, the MPF Program gives control of those functions that most impact credit quality to PFIs. The Banks are responsible for managing the interest rate risk, prepayment risk, and liquidity risk associated with owning MPF Loans.

The AMA Regulation not only requires PFIs to assume or retain credit risk in connection with MPF Loans, which is certainly distinct from the role of mortgage brokers, but PFIs are also required to pledge collateral to support their direct credit enhancement obligations in essentially the same manner that they pledge collateral to support the advances (loans) they obtain from the Banks.

Closed Loans and the MPF 100 Product Option

PFIs may currently choose from five MPF Loan products. Four of these products (Original MPF, MPF 125, MPF Plus, and MPF Government) are closed loan products under which the Banks purchase MPF Loans that have been acquired or have already been closed by PFIs with their own funds. However, under the MPF 100 product, the Banks "table fund" MPF Loans; that is, we provide the funds for the PFI as our agent to make the MPF Loan to the borrower. The PFI performs all the traditional retail loan origination functions under this and all other MPF products. Under the MPF 100 product, the Bank is considered the originator of the

MPF Loan for accounting purposes since the PFI is acting as its agent when originating the MPF Loan.

On July 19, 1999, the Federal Reserve, jointly with the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Office of Thrift Supervision issued a letter to the FHLBC approving certain risk-based capital treatment for PFIs using the MPF Program product which is called MPF 100 (Exhibit A attached). Under this ruling, PFIs are required to hold risk-based capital in connection with the credit enhancement they assume which is in addition to collateral the Banks require the PFIs to pledge to secure those credit enhancement obligations.

Of all the MPF Program products, the MPF 100 product is designed most specifically for small PFIs, commercial banks and thrifts that serve their local communities. These PFIs have traditionally borrowed advances from the Banks the proceeds of which the PFIs would use to make mortgage loans to their customers. From the perspective of PFIs using the MPF 100 product, it is the functional equivalent to taking down advances from the Banks. These PFIs consider themselves as the lender of the mortgage loans to their customers and consider the Banks a secondary market outlet for those loans, notwithstanding that the Banks technically provide the funds on the day the loans close.

Perhaps as significant, consumers who deal with their local bank, thrift or credit union do not consider their federally insured financial institution to act as a mortgage broker, but rather consumers believe that they are dealing with their lender notwithstanding any technical arrangement the PFI may have with one of the Banks to provide funds for the loan. This distinction between consumers' expectations of a lender and a mortgage broker was recognized by the Federal Reserve when it said:

> The Board is not aware of significant evidence that consumers perceive lenders' employees the way they often perceive independent brokers—as trusted advisors who shop for the best loan for a consumer among a wide variety of sources. Accordingly, it is not clear that a key premise of the proposal to restrict creditor payments to brokers—that consumers expect a broker has a legal or professional obligation to give disinterested advice and find the consumer the best loan available—holds true for creditor payments to their own employees. (page 1700 of Federal Register Vol. 73, No. 6, January 9, 2008)

Any PFI can deliver MPF Loans under more than one MPF product, so it is possible for a PFI to act as the Bank's agent for some MPF Loans which are funded by the Bank under the MPF 100 product, and to be the funding lender of other MPF Loans which are subsequently sold to the Bank under other MPF Program products. The PFI is not required to determine which product it will use to deliver an MPF Loan to a Bank until the day the MPF Loan closes. On the loan closing date if the PFI decides to have the Bank fund the loan, the PFI submits loan data to obtain funds from the Bank under the MPF 100 product. At the same time, the PFI could (1) close the MPF Loan with its own funds and sell it to the Bank under a closed loan MPF Program product, or (2) keep the loan in its own portfolio, or (3) possibly sell it to other secondary mortgage market participants.

The Banks publish, on a daily basis, the prices for which they will purchase closed MPF Loans from PFIs. The same price sheets that are used for the purchase of closed conventional MPF Loans are used to determine the "agent fee" paid to or by the PFIs when the MPF Loans are funded under the MPF 100 product. In other words, the premium or discount prices available for regular secondary market purchases of MPF Loans apply to the funding of MPF Loans under the MPF 100 product. Secondary market prices are based on the interest rate of the loan, the term of the loan, the remittance type and whether the loan is a conventional or a Government loan. Though most MPF Loans are acquired at premium prices, on occasion PFIs deliver loans at par or at a discount which means for MPF Loans funded under the MPF 100 product, that PFIs could have negative agent fees depending on the interest rate of those loans.

To assist PFIs in compliance with RESPA, the MPF Program Origination Guide provides guidelines and disclosure forms specifically designed to provide notice to consumers of the Banks' role in providing funds for MPF Loans funded under the MPF 100 product. We have attached the most recent guidance, PFI Notice 2007-7, and the disclosure forms and instructions for completion of the HUD-1 referenced therein. (Exhibit B attached) The existing disclosure requirements are already a significant burden on the PFIs that use the MPF 100 product as no special disclosures are required for the sale of closed loans to the Banks.

Contrast between Brokered Loans and the MPF 100 Product

The current role of mortgage brokers in the mortgage business has been described in the Media as creating "perverse incentives" for mortgage brokers to act in a manner that may be harmful to consumers. One factor in this situation is that mortgage brokers have no credit risk, no "skin in the game" with respect to the loans they broker, whereas the MPF Program was designed, and is mandated by the AMA Regulation, to require PFIs to assume material and significant risk in connection with MPF Loans. Specifically, PFIs are required to "bear the direct economic consequences of actual credit losses … in an amount equal to or exceeding the amount of expected losses" on the MPF Loans they deliver to the Banks (12 CFR §955.3(b)(2)). This credit enhancement function aligns the interests of PFIs with both the interests of the Banks and the interests of the consumers. Historically, this credit sharing structure has resulted in MPF Loans performing consistently better than the national average. In addition, because PFIs are full service financial institutions, they consider their mortgage business just one of many financial products they offer to their customers. PFIs are motivated to maintain good relations with their customers for cross-selling purposes.

Consumers have entirely different expectations when dealing with a typical mortgage broker than when dealing with their local federally insured financial institution. Consumers are already loaded down with disclosures and documents that are complex and confusing. Giving a consumer a disclosure that his bank or thrift is a mortgage broker would create confusion rather than clarity.

Impact of Proposed Rule

The Federal Reserve proposes to add Section 226.36(a) to Regulation Z which would require mortgage brokers to enter into a written agreement with a consumer before the consumer pays a fee or submits a written application to the mortgage broker for the transaction, whichever is earlier. The agreement must set forth the compensation the mortgage broker will receive. If §226.36(a) were to apply to PFIs using the MPF 100 product, they would be unable to comply with its requirements given that the agent fee which they will receive from the Banks can not be determined at the time the PFIs accept loan applications from borrowers. Those PFIs that have used the MPF 100 product to provide mortgage loans to customers in their communities would be forced to either stop making fixed rate home loans or have to charge higher interest rates and fees to sell those loans to other secondary market purchasers, assuming they can even find other secondary market purchasers who are willing to do business with sellers of extremely small volumes of loans.

The Federal Reserve has recognized that disclosure of secondary market fees in advance of even taking a loan application is not feasible when it said:

> In addition, extending the proposal to creditor payments to their employees could present difficult practical problems. For example, a creditor may not know even as of consummation whether it will sell a particular loan in the secondary market. If the creditor is nonetheless certain to sell the loan, it may not know until near or at consummation what its gain will be or, therefore, how much it will pay its employee. (page 1700 of Federal Register Vol. 73, No. 6, January 9, 2008)

The Banks assume that having previously authorized the use of the MPF 100 product by the PFIs it regulates, the Federal Reserve did not intend to include MPF Loans originated by FDIC insured PFIs of the Banks and funded by the Banks under the MPF 100 product within the scope of the Proposed Rule. These MPF Loans are always retail mortgage loans originated by a PFI or its affiliate and do not involve mortgage loan brokers. The concerns pertaining to mortgage loan brokers which the Federal Reserve seeks to address in promulgating the Proposed Rule are simply not present in MPF Loans funded by the Banks under the MPF 100 product.

Requested Action

To preserve the unique benefit of the MPF 100 product to the small banks and thrifts that provide mortgage loans in their communities, the Banks request that the Federal Reserve revise the Proposed Rule to exclude MPF Loans originated by FDIC and NCUA insured institutions that share in the credit risk of loss of such loans from its scope. This revision would recognize that MPF Loans do not involve mortgage brokers, and therefore do not present the concerns pertaining to mortgage brokers which the Federal Reserve seeks to address in promulgating the Proposed Rule. MPF Loans originated under the MPF 100 product are always retail mortgage loans originated by a PFI or its affiliate and never involve mortgage brokers. Finally, this revision would be consistent with the Federal Reserve's previous review and authorization of the use of the MPF 100 product by the PFIs that it regulates.

Specifically, the Banks suggest that §226.36(c) be amended by adding the following sentence:

> The term mortgage broker does not include a financial institution insured pursuant to 12 USC §1815 or 12 USC §1781 that processes a mortgage loan for a creditor where such financial institution bears the direct economic consequences of actual credit losses in an

amount that equals or exceeds the amount of expected losses on such mortgage loan, including a mortgage loan where a Federal Home Loan Bank is the creditor.

The Banks believe that the unique situation of federally regulated lenders undertaking shared credit risk that meets the AMA Regulation requirements deserves to be excluded from the scope of the Proposed Rule's provisions relating to mortgage broker disclosure.

Thank you for the opportunity to comment on the Proposed Rule. Should your staff have any questions regarding this comment letter, please contact Sybil C. Malinowski, Associate General Counsel of the FHLBC at 312-565-5738 or smalinowski@fhlbc.com.

Sincerely,

Federal Home Loan Bank of Boston

Susan Elliott
Executive Vice President/Member Services

[Signatures continued on following pages]

Enclosures:

July 19, 1999 Letter from four federal banking agencies
PFI Notice 2007-7, OG51, OG52, OG6

"Mortgage Partnership Finance" and "MPF" are registered trademarks of the Federal Home Loan Bank of Chicago.

Federal Home Loan Bank of Chicago

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Federal Home Loan Bank of New York

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Thomas J. Doyle
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Federal Home Loan Bank of Pittsburgh

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Group Director, Member Services

Federal Home Loan Bank of Topeka

Sonia Betsworth
Senior Vice President/Director of Member Products

Office of the Comptroller of the Currency

Board of Governors of the Federal Reserve System

Federal Deposit Insurance Corporation

Office of Thrift Supervision

July 19, 1999

Mr. Peter E. Gutzmer
Senior Vice President,
General Counsel & Corporate Secretary
Federal Home Loan Bank of Chicago
111 East Wacker Drive
Chicago, Illinois 60601

Dear Mr. Gutzmer.

In letters dated February 18 and April 8, 1999, the Federal Home Loan Bank of Chicago ("FHLB-C") requested that the federal banking agencies ("Agencies") confirm the risk-based capital treatment of the credit enhancement provided by banks and thrifts ("participating financial institutions" or "PFIs") under the Mortgage Partnership Finance ("MPF") program. The FHLB-C expressed its view that the second loss credit enhancement should be treated as a direct credit substitute for purposes of the Agencies' risk-based capital standards.[1]

As we understand the proposed structure of the MPF program, a PFI acts as agent for the FHLB-C in the process of originating 1-to-4 family residential mortgage loans, which are funded and initially owned by the FHLB-C.[2] As agent, a PFI assists in the

[1] The risk-based capital treatment prescribed in this letter supersedes any previous guidance issued by any of the Agencies. If a PFI has entered into a MPF transaction that does not meet the conditions described in this letter, then the PFI should consult with its primary federal regulator.

[2] In addition, the FHLB-C requested confirmation that the use of a disclosure form would resolve the Agencies' concerns regarding the disclosure of the agency role of the PFI in a MPF transaction. We understand that all consumer disclosures will comply with applicable law, and that these disclosures will clearly describe the respective roles of the PFIs and the FHLB-C. The measures that the FHLB-C has proposed to take for disclosing the agency role

origination of mortgage loans and provides loan servicing and second loss credit enhancements, for which it receives fees. The FHLB-C retains both the first loss position and all losses beyond the second loss position provided by a PFI. The program is structured so that the FHLB-C also retains the interest rate risk associated with the funding of the mortgages and any prepayments, while the PFI is exposed to limited credit risk and the potential loss of its servicing and guarantee fees due to prepayments.

The size of the second loss credit enhancement provided by a PFI is a matter of contract between the FHLB-C and each PFI. Under the program, the size of the second loss credit enhancement is determined to be the amount that – together with the FHLB-C's first loss position – is sufficient to bring the FHLB-C's third loss position to the equivalent of a AA-level of credit quality. Typically, the enhancement is expected to be no higher than two percent of the unpaid balance of each pool of mortgages the institution has assisted in originating under the MPF program, depending upon the credit quality of the underlying loans. The FHLB-C has established minimum credit quality guidelines for program-acceptable mortgages, which is expected to result in the underwriting of high quality mortgages.

At the initiation of a transaction, the FHLB-C will agree to retain the first loss position and absorb all credit losses up to 100 basis points of the initial unpaid principal balance of each mortgage pool established under the MPF program.[3] More specifically, the FHLB-C agrees that it will not seek reimbursement from the PFI's second loss credit enhancement until the FHLB-C has absorbed losses equal to 100 basis points of the total mortgage pool's initial unpaid principal balance. As the mortgage pool amortizes, the first loss position is expected to increase as a percentage of the remaining unpaid balance of the mortgages in the MPF pool.

For a typical mortgage pool, the FHLB-C states that its first loss coverage level would provide sufficient credit protection so that the second loss credit enhancement provided by the PFI generally would be a creditworthy exposure, e.g., the equivalent of a BB level of credit quality as defined by one of the nationally-recognized statistical rating organizations. For many mortgage pools, the FHLB-C maintains that the PFI credit enhancement would qualify for an investment grade rating, e.g., BBB- or BBB. These credit quality assessments, however, do not explicitly consider concentration risk.

Based on our current understanding of the MPF program's structure, as described above, the Agencies believe that the second loss credit enhancement provided by PFIs may be treated for risk-based capital purposes as a direct credit substitute. A financial institution providing such a credit enhancement will be required to use the 100 percent conversion factor to convert the face amount of the enhancement to an on-balance sheet credit equivalent amount. This amount would then be assigned to the 100 percent risk category applicable to subordinated privately-issued mortgage-backed securities because the credit

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of a PFI in the MPF program would, if implemented, essentially resolve the concerns of the Agencies regarding disclosure.

[3] In some of the MPF program materials, the first loss position is sometimes referred to as a first loss spread account.

enhancement is, in substance, the economic equivalent of such an obligation. This treatment may be accorded when the FHLB-C agrees that a PFI's second loss enhancement will not be drawn on until it has absorbed the first 100 basis points of credit loss as defined under the MPF program. Moreover, the Agencies expect that the credit quality of future pools to be consistent with that represented in your letters dated February 18 and April 8, 1999.

The Agencies are concerned about the possibility of PFIs amassing a large degree of concentration risk and a significant volume of potentially lower credit quality risk positions through the MPF program. Financial institutions are expected, at all times, to maintain capital commensurate with the nature and extent of the risks to which they are exposed. The type, quantity, and quality of risk inherent in an institution's activities determine the extent to which it may be necessary to maintain capital at levels above the required regulatory minimums to adequately protect against potentially adverse consequences. In order to ensure that PFIs are maintaining an appropriate amount of capital against the second loss credit enhancements associated with the MPF program, examiners will consider a PFI's exposure to concentration risk and credit risk when assessing the overall capital adequacy of individual institutions.

Examiners will review a PFI's MPF program credit enhancements when rating the capital adequacy and management components of the CAMELS rating system.[4] PFIs must make available to examiners, upon request, relevant documentation indicating the credit quality of all the second loss credit enhancements they provide under the MPF program, as well as the performance of the individual mortgage pools. This documentation usually includes items such as current quarterly mortgage pool reports provided by the FHLB-C.

The Agencies may revisit the risk-based capital and supervisory treatment of second loss credit enhancements if sufficient experience with the program indicates that the credit quality or credit concentrations of the mortgage pools pose safety and soundness concerns. In addition, in the event that the credit risk to which a PFI is exposed changes, the Agencies retain all of their supervisory discretion to review and revise the regulatory capital treatment on either a case-by-case or programmatic basis.

We would like to point out that the Agencies currently are considering an outstanding proposal that sets forth comprehensive risk-based capital requirements for securitized transactions and structured financings. This proposal may have implications for the capital treatment of a second loss credit enhancement provided by a PFI in the MPF program. Under the proposal, risk-based capital requirements would reflect the relative risk of the various credit exposures within a structured financing and those requirements would be determined through the use of credit ratings. As currently set forth under the proposal, risk positions rated at least investment grade, i.e., at least BBB-, would be assessed capital against only the face value of the enhancement. However, risk positions rated below investment grade would be subject to higher risk-based capital requirements. If the Agencies were to adopt such a proposal, then the second loss credit enhancement provided by a PFI in the MPF program would be subject to the requirements set forth in a final rule.

[4] The Agencies may issue, either individually or jointly, additional supervisory guidance addressing the treatment of the second loss credit enhancements provided by PFIs.

The Agencies understand that MPF is an innovative program that does not fit neatly into the existing capital framework. Accordingly, the Agencies have sought to respond in a manner that ensures the safety and soundness of the institutions that participate in the MPF program and, at the same time, does not stifle innovation. The conclusions reached by the Agencies are based on information presented in your letters of February 18 and April 8, 1999, subsequent telephone conversations, and background material provided by the FHLB-C. These conclusions apply only to the modified MPF program described in this letter. If the facts and circumstances are, in fact, different or if they change, then the capital treatment prescribed above for the second loss credit enhancement may not apply.

If you have any questions, please contact Margot Schwadron (202/874-5070), Office of the Comptroller of the Currency; Tom Boemio (202/452-2982), Federal Reserve Board; Stephen Pfeifer (202/898-8904), Federal Deposit Insurance Corporation; or Michael Solomon (202/906-5654), Office of Thrift Supervision.

Sincerely,

Kevin J. Bailey

Kevin Bailey, Deputy Comptroller
Office of the Comptroller of the Currency

Norah Barger

Norah Barger, Assistant Director
Federal Reserve Board

Christie A. Sciacca

Christie A. Sciacca, Associate Director
Division of Supervision
Federal Deposit Insurance Corporation

John C. Price Jr.

John C. Price Jr., Director
Supervision Policy
Office of Thrift Supervision

Agency/Agent Fee and Affiliated Business Arrangement Notice and Disclosure Statement (Form OG5-1)

Mortgage Partnership Finance

MORTGAGE PARTNERSHIP FINANCE® PROGRAM

AGENCY/AGENT FEE AND AFFILIATED BUSINESS ARRANGEMENT
NOTICE AND DISCLOSURE STATEMENT

To: [Name of Borrower] Property:

From: [PFI Name] Date:

This is to notify you that your loan will be owned by the Federal Home Loan Bank of [City of Bank] ("FHLB") at the closing through the participation of [PFI Name] ("Financial Institution") in the Mortgage Partnership Finance Program (the "MPF® Program").

This is to also notify you that the Financial Institution has a business relationship with the FHLB. To be a member and take advantage of programs that support home lending, the Financial Institution owns [more than/less than] one percent of the stock of the FHLB.

The FHLB will provide funding for your loan through its MPF Program. Funding the loan is considered a "settlement service" for purposes of this Notice, but the FHLB does not charge you a fee for this service. By participating in the MPF Program, the Financial Institution is able to offer you a competitive rate for your loan.

The Federal Home Loan Banks which offer the MPF Program are chartered by the United States Government, and are mandated to provide funds for home lending, which is the purpose of the MPF Program. Under the MPF Program the Financial Institution acts as agent for the FHLB, the party which is funding your loan. The Financial Institution typically receives an Agent Fee from the FHLB for the actions it takes to originate your loan such as underwriting, processing and closing your loan. In some instances, depending on interest rate changes, the Financial Institution may be required to pay a fee to the FHLB to insure that your loan's interest rate does not change. Whether the Financial Institution receives funds from or pays funds to the FHLB, there is no additional cost to you. An estimate of the points and fees you are required to pay for your loan, if any, has been disclosed on the Good Faith Estimate you received in connection with your application. Any points and fees paid by you at closing are retained by the Financial Institution and will be disclosed again on the HUD-1 statement you receive at closing.

Your loan will be serviced as provided in the separate servicing disclosure. All payments, correspondence and other inquiries regarding your loan should be directed to the servicer of your loan.

Because of the relationship between the Financial Institution and the FHLB, the Financial Institution's decision to fund the loan through the MPF Program may result in the Financial Institution receiving a financial or other benefit as described above.

Agency/Agent Fee and Affiliated Business Arrangement Notice and Disclosure Statement (Form OG5-1)

Mortgage Partnership Finance

Set forth below is the estimate charge or range of charges for the settlement service provided by the FHLB. You are NOT required to fund your loan under the MPF Program. THERE ARE FREQUENTLY OTHER SETTLEMENT SERVICE PROVIDERS AVAILABLE WITH SIMILAR SERVICES. YOU ARE FREE TO SHOP AROUND TO DETERMINE THAT YOU ARE RECEIVING THE BEST SERVICES AND THE BEST RATE FOR THESE SERVICES.

Provider and Settlement Service	Charge or Range of Charges
Federal Home Loan Bank of [City of Bank]; Funding	No charges are payable by the Borrower.

If you have any questions about the Financial Institution's participation in the MPF Program, please call [PFI name - contact] [Name], [Title] at [telephone].

ACKNOWLEDGMENT

I/we have read this notice and disclosure form and understand that my Financial Institution is referring my loan to the FHLB for funding and that my Financial Institution may receive a financial or other benefit as the result of this referral.

____
Signature

____
Signature

Instructions for Completing the HUD-1 Settlement Statement (Form OG5-2)

Mortgage Partnership Finance

MORTGAGE PARTNERSHIP FINANCE® PROGRAM
INSTRUCTIONS FOR COMPLETING THE HUD – 1 SETTLEMENT STATEMENT

(1) In the field for "LENDER" the following should be used:

[PFI name]
[PFI address**]**

(2) If the Agent Fee payable by the MPF Bank to the PFI will be a positive number or zero, it should be disclosed on any available line in the 800 Section of the Form HUD-1 or HUD-1A, as follows:

Line 808 (e.g.)	Agent Fee from Federal Home Loan Bank of [City of Bank] ("FHLB") to [PFI Name] (P.O.C.)*	$ ___ [amount]

(The following footnote is added at the bottom of the page:)

* Agent Fee paid outside of closing to [PFI Name] by the FHLB as described in the attached Agency/Agent Fee and Affiliated Business Arrangement Notice and Disclosure Statement.

(3) If the calculation of the Agent Fee will result in a negative number (e.g., funds due to the MPF Bank from the PFI), the disclosure in the available line in the 800 Section of the HUD-1 or HUD-1A should be as follows:

Line 808 (e.g.)	Agent Fee paid by **[PFI]** to Federal Home Loan Bank of [City of Bank] ("FHLB") for interest rate protection (P.O.C.)*	$ ___ [amount]

(The following footnote is added at the bottom of the page:)

* Agent Fee paid outside of closing to the FHLB by [PFI Name]as described in the attached Agency/Agent Fee and Affiliated Business Arrangement Notice and Disclosure Statement.

(4) All points and fees charged to the Borrower should be shown as payable to the PFI.

Agency/Agent Fee and Affiliated Business Arrangement Notice and Disclosure Statement (Form OG6)

Mortgage Partnership Finance

MORTGAGE PARTNERSHIP FINANCE® PROGRAM

AGENCY/AGENT FEE AND AFFILIATED BUSINESS ARRANGEMENT NOTICE AND DISCLOSURE STATEMENT

To: [Name of Borrower] **Property:**

From: [PFI Name] **Date:**

This is to notify you that your loan may be owned by the Federal Home Loan Bank of [City of Bank] ("FHLB") when it is closed because of the participation of [PFI Name] ("Financial Institution") in the Mortgage Partnership Finance Program (the "MPF® Program").

This is to also notify you that the Financial Institution has a business relationship with the FHLB. To be a member and take advantage of programs that support home lending, the Financial Institution owns [more than/less than] one percent of the stock of the FHLB.

The FHLB may provide funding for your loan through its MPF Program. Funding the loan is considered a "settlement service" for purposes of this Notice, but the FHLB does not charge you a fee for this service. By participating in the MPF Program, the Financial Institution is able to offer you a competitive rate for your loan. The Federal Home Loan Banks which fund loans under the MPF Program, are chartered by the United States Government and mandated to provide funds for home lending, which is the purpose of the MPF Program.

Under the MPF Program the Financial Institution acts as agent for the FHLB, the party which may fund your loan. The Financial Institution typically receives an Agent Fee from the FHLB for the actions it takes to originate your loan such as underwriting, processing and closing your loan. In some instances, depending on interest rate changes, the Financial Institution may be required to pay a fee to the FHLB to insure that your loan's interest rate does not change. Whether the Financial Institution receives funds from or pays funds to the FHLB, there is no additional cost to you. An estimate of the points and fees you are required to pay for your loan, if any, will be disclosed on the Good Faith Estimate you receive in connection with your application. Any points and fees paid by you at closing are retained by the Financial Institution and will be disclosed again on the HUD-1 statement you receive at closing.

Because of the relationship between the Financial Institution and the FHLB, if the Financial Institution decides to fund the loan through the MPF Program, the Financial Institution may receive a financial or other benefit as described above.

Agency/Agent Fee and Affiliated Business Arrangement Notice and Disclosure Statement (Form OG6)

Mortgage Partnership Finance

Set forth below is the estimate charge or range of charges for the settlement service provided by the FHLB. You are NOT required to fund your loan through the MPF Program. THERE ARE FREQUENTLY OTHER SETTLEMENT SERVICE PROVIDERS AVAILABLE WITH SIMILAR SERVICES. YOU ARE FREE TO SHOP AROUND TO DETERMINE THAT YOU ARE RECEIVING THE BEST SERVICES AND THE BEST RATE FOR THESE SERVICES.

Provider and Settlement Service	Charge or Range of Charges
Federal Home Loan Bank of [City of Bank]; Funding	No charges are payable by the Borrower.

If you have any questions about the Financial Institution's participation in the MPF Program, please call [PFI name - contact] [Name], [Title] at [telephone].

ACKNOWLEDGMENT

I/we have read this notice and disclosure form and understand that my Financial Institution is referring my loan to the FHLB for funding and that my Financial Institution may receive a financial or other benefit as the result of this referral.

Signature

Signature

MPF LIBRARY / Bulletins, Notices, and Advisories / Notices / 2007 PFI Notices / PFI Notice 2007-7 (09/20/07)

PFI Notice 2007-7 (09/20/07)

Effective Date:

Immediately

Special Attention:

PFI's MPF® Program Management and Origination Management

Subject:

Enhancements to the MPF Guides on the following subject:

- Revised Disclosures for MPF 100 Product

Enhancements will affect the following Guide Chapters and Exhibits:

Origination Guide Chapter 31	**General Warranties and Responsibilities**
Origination Guide Forms and Exhibits	**Agency/Agent Fee and Affiliated Business Arrangement Notice and Disclosure Statement (OG5-1 and OG6)**
	Instructions for Completing the HUD-1 Settlement Statement (OG5-2)

Description of Changes:

Origination and Underwriting Guide Revisions

Revised Disclosures for MPF 100 Product (OG Chapter 31.7, Form OG5-1, OG5-2 and OG6)

We are updating our guidance on RESPA disclosures and recommending a revised multi-purpose disclosure form, which covers the Agent Fee and the agency and affiliated party relationships between the PFI and its Federal Home Loan Bank (MPF Bank). This PFI Notice supersedes PFI Notice 99-9.

The Agency/Agent Fee and Affiliated Business Arrangement Notice and Disclosure Statement (the "MPF Disclosure") has two versions (OG5-1 and OG6) which are described below. No revisions to the MPF Disclosure are needed (except for completing the form by inserting the borrower name, property address and date) unless the PFI's stock ownership in the MPF Bank moves above or below one percent.

MPF Initial Disclosure

We suggest that an estimated Agent Fee be disclosed on the Good Faith Estimate ("GFE") only in those cases where the PFI actually knows at the time the GFE is given that the loan will be funded under the MPF 100 Product. However, we advise any PFI that is funding most of its production under the MPF 100 Product to consider disclosing an estimated Agent Fee on every GFE it gives (if the Agent Fee would be positive, rather than zero or negative for the proposed loan).

For the purpose of this PFI Notice, a "referral" is the PFI's decision to fund a loan via the MPF 100 Product. A typical scenario when a loan may be considered to be "referred" includes submission of a Loan Presentment or the establishment of a Delivery Commitment. We recommend that the MPF Disclosure be given:

Option A:

> To every applicant with the initial loan disclosures (Form OG6); or

Option B:

> At the time the referral is made to the MPF Bank for funding each loan, the MPF Disclosure (Form OG6), except that if the referral is made within three days of closing, then only MPF Disclosure (Form OG5-1) need be given at closing. This is because the borrower is not likely to receive the MPF Disclosure (Form OG6) prior to closing and therefore mailing it at the time of referral would be useless and potentially confusing to the borrower.

The PFI may select option A or B, as the PFI deems appropriate. However, only the PFI can know the point in its process when a loan is referred for funding under the MPF Program. To avoid making this determination, the PFI may choose to give the MPF Disclosure to every loan applicant under option A (in addition to the providing an OG5-1 at closing).

MPF Disclosure at Closing:

The MPF Disclosure, Form OG5-1 (which states the loan "will be owned" by the MPF Bank at closing) should always be given at closing of a Bank Funded Loan (MPF 100 Product) because the MPF Disclosure is referenced in the HUD-1 (and should be given again even if an MPF Disclosure Form OG6, which states the loan "may be funded" by the MPF Bank, was given at application or at the time the referral to the MPF Bank was made).

Detailed instructions for completing the HUD-1 Settlement Statement with respect to an MPF 100 Bank Funded Loan are set forth in Form OG5-2.

Federal Banking Regulators Expectations:

In approving "direct credit substitute" risk-based capital treatment for the PFI's Credit Enhancement obligation under the MPF 100 Product, the Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation and Office of Thrift Supervision have stated that they expect the agency relationship between the PFI and the MPF Bank to be clearly disclosed to the borrower. The MPF Disclosure describes this relationship.

Limitation of Recommendations:

The MPF Provider has consulted with counsel with respect to the issues addressed in this Notice, however this guidance is not to be considered legal advice to PFIs. PFIs should consult their own counsel for legal advice.

Origination and Underwriting Guide Revisions

The following Origination Guide changes can be found on the AllRegs® and eMPF websites. Links to these sites are available at fhlbmpf.com and fhlb-mpf.com or may be accessed directly at http://www.allregs.com/fhlbmpf/.

- Origination Guide
    - Chapter 31 – changed text is highlighted in AllRegs
    - Form OG5-1
    - Form OG5-2
    - Form OG6

If you have any questions about these changes, please contact your MPF Bank Representative or call the MPF Customer Support Desk at 877-INFO-MPF (877-463-6673).