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New FHLB Purchase Try

WASHINGTON—The Federal Home Loan Bank of Atlanta has received regulatory approval to work with a Chicago investment fund management firm that wants to purchase high-quality-conforming single-family mortgages directly from community banks.

The Atlanta bank will market Hillenbrand Partners' fledgling Global Mortgage Alliance program to its member institutions and provide back-office processing for a fee.

But the GMA program does not require the Atlanta bank to invest in the mortgages or assume any hedging or interest rate risks that have crippled several FHLBank mortgage purchase programs.

Eric Hillenbrand, the founder of the investment firm, said the GMA program is based on relationships the community banks have with their customers and the FHLBanks.

He stressed the GMA program does not rely on government guarantees and it is not an effort to create another government-sponsored enterprise like Fannie Mae. Rather, it provides a private secondary market outlet for FHLBank member banks and thrifts that want to sell their conventional conforming mortgages at a competitive price.

"GMA represents an important evolution of the bank's liquidity mission for its members," said Atlanta FHLBank interim president and chief executive William Ott Jr. "One of the great benefits of this program is that it rewards members for the quality of their underwriting without exposing the bank to the additional balance-sheet risks associated with placing the mortgages on the balance sheet."

Mr. Hillenbrand is in discussions with other FHLBanks and hopes to get four to five banks to sign up for the GMA program this summer.

His goal is to securitize \$5 billion to \$6 billion in mortgages over the next 12 months.

Credit Suisse is GMA's warehouse lender and lead underwriter for the issuance of the private label mortgage-backed securities. The "AAA" rated senior piece will be sold to investors and Hillenbrand Partners will hold all the subordinated pieces from "AA" down, Mr. Hillenbrand said in an interview.

He wants to start purchasing fixed-rate mortgages from Atlanta FHLBank members by the end of July.

The Atlanta bank has its own mortgage purchase programs along with the experience and infrastructure to serve as an oper-

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ations center for the GMA program and handle accounts for the participating community banks.

Hillenbrand Partners and the Atlanta bank jointly developed the e-GMA loan delivery system which will allow approved sellers to view pricing provided by GMA, create commitments and deliver loans through an automated intern portal.

This system is designed to facilitate an easy transition for community banks that have participated in the FHLBanks' mortgage purchase programs and mortgage partnership programs.

GMC LLC, an affiliate of Hillenbrand

Partners, owns and controls e-GMA.

Mr. Hillenbrand sees GMA as part of the natural development of the Mortgage Partnership Finance program that was pioneered by the Chicago FHLBank 10 years ago.

In fact, Mr. Hillenbrand and former Chicago bank president Alex Pollock are old friends and speak often about the GMA initiative.

"Alex is a great go-to guy. He is a good friend," Mr. Hillenbrand said.

While at Bank One in 2003, Mr. Hillenbrand worked with the Chicago FHLBank president in securitizing \$475 million in MPF loans. The pilot securitization effort was designed to free up the Chicago bank's balance sheet so it could purchase more MPF loans from Chicago members and other FHLBanks.

"I am aware of what they are doing and think it will be a big success," Mr. Pollock said.

"I think it is a natural evolution for the FHLBanks and a continuation of the mortgage finance ideas that I had some hand in starting up for the Home Loan Banks 10 years ago," he added. Mr. Pollock is currently a resident fellow at a Washington think tank and said he has no investment in his friend's company.

Meanwhile, the MPF and MPP programs have stalled out as the FHLBanks have limited surplus capital to purchase and hold mortgages in their portfolio.

The Federal Housing Finance Board also has clamped down on the mortgage purchase programs and blocked efforts by the FHLBanks to sell or securitize MPF and MPP loans.

The Chicago FHLBank has been operating under a supervisory agreement since June 2004 and it recently reported that its earnings dropped 59% in the first quarter to \$23 million, primarily due to the cost of

maintaining a \$37 billion MPF portfolio.

Net interest income on the portfolio totaled \$13 million in the first quarter, down dramatically from \$93 million in the first quarter of 2006. The Chicago bank pointed to reduced mortgage volume combined with rising financing costs and amortization of prior hedging costs for the drop.

When the Finance Board approved the GMA program on May 9, it surprised many in the FHLBank community and raised concerns that the Atlanta FHLBank would be taking on in new hedging and interest rate risks.

“It is still new and people are still learn-

ing about it,” said America’s Community Bankers executive vice president Robert Davis. But he noted that GMA is much different than the MPP and MPF programs because the FHLBank itself is not involved in purchasing mortgages.

“As people have learned that there are limited or no risks to the Atlanta bank in operating the program, I think the initial fears have been allayed to a significant degree,” Mr. Davis said.

Meanwhile, Mr. Hillenbrand expects to provide competitive pricing and allow FHLBanks members to sell their loans

servicing released or servicing retained. LaSalle Bank is GMA’s master servicer.

Unlike the FHLBank mortgage purchase programs, GMA-approved sellers don’t retain a first-loss position.

“We had to chance to look at all the MPF and MPP data,” Mr. Hillenbrand said, and the underwriting is “exceptionally good.” He is betting the underwriting will remain exceptional.

“We think the community banks and the relationship they have with their customers creates the performance of those mortgages — not the credit piece,” he said.



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