

Finance Board Blesses FHLBank Atlanta's Loan Marketing Plan

DOW JONES NEWSWIRES *May 9, 2007 2:48 p.m.*

By Damian Paletta of DOW JONES NEWSWIRES

WASHINGTON (Dow Jones)--The Federal Housing Finance Board narrowly blessed a proposal Wednesday that would allow the Federal Home Loan Bank of Atlanta to serve as a conduit between its 1,200 bank members and a private investment company that plans to buy and pool their mortgages and package them into securities.

The new program would be an unprecedented service for any of the 12 Federal Home Loan Banks, and the Finance Board was split during a public meeting over whether to allow Atlanta to offer it.

The 12 FHLBanks are government-sponsored enterprises, and their stock is owned by financial institutions that serve as members. The FHLBanks extend credit and pay dividends to the member banks, but they also have mortgage purchase programs that serve as a secondary market for residential mortgages.

The new program would allow the FHLBank of Atlanta to serve as a liaison between **Hillenbrand Capital, LLC, an affiliate of Chicago-based Hillenbrand Partners**, and the FHLBank's 1,200 member banks. Hillenbrand could purchase fixed rate prime and subprime loans through this program.

The FHLBank of Atlanta would earn a fee for transactions made through its new "global mortgage alliance program," though a spokesman would not say how much the FHLBank planned to earn.

Such a program, if successful, could serve as a model for the 11 other FHLBanks.

Banks would not be obligated to sell their mortgages to Hillenbrand, but the FHLBank of Atlanta would be marketing the opportunity to the banks.

Finance Board Chairman Ronald A. Rosenfeld said the program would offer community and regional banks another option as they determine where to sell their loans in the secondary market, and he praised the plan because it would not place the credit risk posed by each loan onto the FHLBank of Atlanta's balance sheet.

"It seems to me that it is just another source of opportunity for the small and

medium-sized banks to sell their mortgages on whatever basis they deem most favorable," Rosenfeld said during the meeting.

But he conceded that it was unclear how popular the program would be and whether members would ultimately decide to sell their loans this way.

"Whether this process actually works or not, I don't know," he said. "That's for the marketplace."

But two directors on the five member board raised questions and tried unsuccessfully to table the proposal.

Brian Montgomery, assistant secretary at the U.S. Department of Housing and Urban Development, asked why the board was debating the plan if it could simply be approved by Stephen Cross, the Finance Board's director of the Office of Supervision.

Montgomery asked Cross if he was privately concerned about the new policy and was looking for guidance from the board.

"I'm trying to read between the lines here," Montgomery said.

"I'm not a between-the-lines kind of guy, really," Cross said. "I'd say the answer is 'No, I am not particularly concerned about the policy.'"

But when Montgomery asked Cross if he was "100% in support of the policy," Cross said no. He categorized his support as "certainly well over 50%."

Another board member, Alicia R. Castaneda, said the program appeared to be an inappropriate use of the bank's government charter and could lead to reputational and other problems.

"If we approve this, we would be letting a Home Loan Bank get into what I would call the 'outsourcing business' for the primary benefit of a single private entity," she said.

Montgomery appeared to know little about the program, as he had apparently not been briefed by Finance Board staff on the matter.

This elicited a rare rebuke from Rosenfeld, who turned to his staff and said, "Don't let it happen again."

Still, Montgomery and Castaneda were the only two members to vote to table the proposal, and it was eventually blessed by the board with three members voting to allow it, Castaneda voting against it, and Montgomery abstaining.

The FHLBank of Atlanta now must receive final approval from the Finance Board staff before it can proceed with marketing the new program. The FHLBanks' secondary market function is limited, and they cannot purchase all of the loans originated by its members. The new program was seen as a way for the FHLBank of Atlanta to earn a fee while connecting its members with another source of secondary market liquidity.

"We're pleased with the Finance Board's consideration," a FHLBank of Atlanta spokesman said. "We look forward to hearing from the staff its recommendation."

-By Damian Paletta, Dow Jones Newswires;