

# Community Developments

## FACT SHEET

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

*Community Developments Fact Sheets* are designed to share information about programs and initiatives of bankers and community development practitioners. These fact sheets differ from OCC bulletins and regulations in that they do not reflect agency policy and should not be considered regulatory or supervisory guidance. Some of the information used in the preparation of this fact sheet was obtained from publicly available sources. These sources are considered reliable and current, as of December 2024, but the use of this information does not constitute an endorsement of its accuracy by the OCC.

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

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

By offering the Government MBS product, the MPF Program provides liquidity, a reliable secondary market conduit, and operational support to participating banks.

The product can put community banks 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 insurance or guarantee programs these agencies offer play a significant role in providing credit to veterans and underserved borrowers, minorities, first-time buyers, and low- or moderate-income borrowers.

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

<sup>1</sup> Refer to the Federal Home Loan Bank's [Mortgage Partnership Finance Program](#).

<sup>2</sup> Refer to [Single Family Housing Guaranteed Loan Program](#). This fact sheet refers to RHS Single Family Housing Guaranteed Loan (also known as the Section 502 Guaranteed Loan Program).

## Background

The federal government has several mortgage insurance and guarantee programs designed to foster homeownership, such as those available through the FHA, VA, and RHS.

Federally insured or guaranteed mortgage loans may be packaged and sold in the secondary market as Ginnie Mae MBSs. 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 Ginnie Mae MBS investors. Ginnie Mae MBSs 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>3</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

cases, a bank may choose to access the secondary market by selling individual loans to an existing Ginnie Mae MBS issuer. This option, however, may not achieve the best price for the originating bank. A community bank may consider the benefits from participation in the MPF Program and the MPF Government MBS product as a way to access the secondary market.

## Who Can Participate?

The Government MBS product is available through FHLBanks participating in the MPF Program and approved to offer the product within their district.<sup>4</sup> Each FHLBank approves its own members to participate in the MPF Program independent of the FHLBank Chicago.

In addition, a participating bank must meet the eligibility standards of the FHA, VA, or RHS section 502 program to originate loans insured or guaranteed under those programs. The loans sold into the MPF Government MBS product must be fixed-rate, fully amortizing, one- to four-unit residential mortgages (either a primary or secondary home) insured or guaranteed by one of those agencies.<sup>5</sup>

The 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>

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<sup>3</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 Eligibility Requirements Fact Sheet](#).

<sup>4</sup> The 11 FHLBanks are regionally based and serve 50 states and four U.S. territories. Presently, six of

the regional FHLBanks participate in the MPF program.

<sup>5</sup> Refer to [MPF Program Guide](#), table 2.8, page 21 (August 27, 2024).

<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.

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. Upon sale of the loan, the FHLBank Chicago may acquire the mortgage servicing rights.<sup>7</sup>

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

The MPF Government MBS product offers several benefits. In many instances, banks obtain a better price for their loan(s) through the 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. In addition, loan purchases can occur soon after the loan closes, allowing the bank to quickly move the loan off its balance sheet.

Having the FHLBank 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 banks that have relatively low mortgage origination volumes.

The MPF Government MBS product allows a bank to manage the underwriting and closing process. Banks also can retain servicing of the loans and preserve the customer relationship through continued interactions with the customer. 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>8</sup>

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<sup>7</sup> Refer to the [MPF Government MBS Selling Guide](#).

<sup>8</sup> For example, the coupon rate on a Ginnie Mae I MBS is 50 basis points lower than the loan rate to the

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 meet each of these 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 MPF Program accepts delivery of purchase and refinance loans, including streamlined refinance loans that are insured or guaranteed by the FHA, by VA, or under the RHS section 502 program.

The MPF Program can purchase a loan soon after closing, but delivery of initial certification and data validation documents

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.

is required within seven calendar days of purchase. Loan presentment is completed using the Loan Presentment Request (Form OG3), or in any other manner.<sup>9</sup> For more information refer to the [MPF Program Guide, section 4.2.2, page 34](#). A bank that retains servicing must comply with the servicing guidelines of the FHA, VA, or RHS, as applicable.

The FHLBank Chicago is responsible for the monthly reporting to Ginnie Mae. Servicers also must manage documents and certifications through the MPF Government MBS Custodian.<sup>10</sup>

## **For More Information**

### *OCC Resources*

- *Community Developments Fact Sheet, “[Rural Housing Service Single Family Housing Guaranteed Loan Program](#)”*
- *Community Developments Fact Sheet, “[FHA’s 203\(b\) Basic Home Mortgage Guarantee Program](#)”*

### *Other Resources*

- Mortgage Partnership Finance Program, [MPF Home Page](#)
- U.S. Department of Housing and Urban Development, Federal Housing Administration, [U.S. Department of Housing and Urban Development FHA Lenders](#), and [FHA Resource Center](#)
- U.S. Department of Agriculture, [Single Family Housing Guaranteed Loan Program USDA Rural Development](#)
- U.S. Department of Veterans Affairs, [VA Home Loans](#)

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<sup>9</sup> Ginnie Mae, “[Single Family Pool Delivery Module \(SFPDM\) Adoption for Single Family and Manufactured Housing Program Users](#).” All Participant Memorandum 22-02 (January 31, 2022).

<sup>10</sup> Refer to [MPF Program Guide](#), section 6.9.3, page 58 (August 27, 2024).