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Press Release

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COMMUNITY BANKS INCREASE USE OF THE MPF[®] PROGRAM

Conventional Volumes From Community Lenders Up Sharply

Chicago, Ill. – Community bankers increasingly are finding the Mortgage Partnership Finance[®] Program an attractive alternative to selling their mortgage loans into the secondary market. MPF[®] participating institutions include small and mid-sized community lenders located in rural, urban and suburban areas, as well as some of the largest national mortgage lenders. Mortgage lenders with assets of less than \$500 million accounted for 79% of the Federal Home Loan Bank members which delivered conventional loans to the MPF[®] Program in the first quarter of 2001. MPF funded loans during the quarter from these community financial institutions totaled \$218 million, almost eight times the amount of the first quarter of 2000, and about two and a half times the previous quarter.

The amount of MPF Program conventional loans outstanding increased 17% in the first quarter from year-end, a 68% annualized growth rate. The volume of new MPF conventional loans funded during the quarter rose 98% to \$733 million compared to \$371 million during the previous quarter.

The total number of approved MPF participating institutions rose to 212 at the end of the first quarter, up 67% from one year earlier. These participating lenders are based in 31 states and the District of Columbia. Over 100 FHLB members are in the process of joining the program while over 200 more members are in discussions to join.

“As we have always expected, community bankers prefer to be paid to manage the credit risk of loans to their customers, as they are with the MPF Program, rather than paying a secondary market agency to take over that risk,” said Alex J. Pollock, President and Chief Executive Officer of the Federal Home Loan Bank of Chicago, which developed the MPF Program. “A goal for 2001 is to

increase the share of conventional loans in the MPF Program. We are very pleased with our progress during the first quarter.”

At the end of March 2001, the total amount of outstanding MPF loans was \$15.7 billion, up from \$4.4 billion one year ago, and from \$15.4 billion at year-end. Mirroring the market, the Program experienced high prepayment rates during the first quarter, as borrowers took advantage of falling interest rates to refinance their mortgages.

The MPF Program gives members of the Federal Home Loan Bank System an alternative to selling fixed-rate, conventional and government-guaranteed loans in the secondary mortgage market. It is available to member institutions of the FHLBs, which include commercial banks, thrifts, credit unions and insurance companies. The Program creates a partnership in which lenders share the risks of the conventional and government-guaranteed fixed-rate mortgages they originate with their regional Home Loan Bank. The credit risk and customer relationship of each loan is managed by the local lender while the FHLB handles the funding, interest rate, liquidity and prepayment risks. This structure allows lenders to avoid the interest rate risk of their fixed-rate mortgages without paying costly guarantee fees charged by the secondary market agencies.

The Federal Home Loan Bank of San Francisco recently became the tenth FHLB to begin offering the MPF Program to their members. Begun in 1997 by the Chicago FHLB, the program has become national in scope and is now available to FHLB members of all sizes, large and small, from coast to coast. The MPF Program has helped over 150,000 families and individuals purchase or refinance a home. The median size of an MPF loan is approximately \$104,500. MPF loans have been made or purchased in all 50 states and Washington, D.C. The credit quality of the loans continues to be excellent, with only 0.08% of conventional loans more than 90 days delinquent or in foreclosure at the end of 2000, compared to the national average of 0.22%.

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The twelve Federal Home Loan Banks are AAA-rated wholesale financial institutions which provide housing finance to more than 7,700 member commercial banks, savings institutions, credit unions and insurance companies throughout the nation. With combined assets over \$650 billion, the FHLBs' credit products include floating and fixed-rate loans, the Mortgage Partnership Finance[®] Program and related products to finance home mortgage portfolios. The Banks also provide funding for affordable housing and community development activities.

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