FEDERAL HOUSING FINANCE BOARD

[97–N–6]

Pilot Mortgage Program Proposed by the Federal Home Loan Bank of Seattle

AGENCY: Federal Housing Finance Board.

ACTION: Notice.

SUMMARY: The Federal Housing Finance Board (Finance Board) is requesting public comment prior to its consideration of a proposal by the Federal Home Loan Bank of Seattle (FHLBank of Seattle) to initiate a pilot mortgage purchase program. The Finance Board will review and consider all comments prior to taking action on the proposal. The FHLBank of Seattle is proposing to invest up to $25 million total in Federal Housing Agency (FHA)-insured loans originated by its members and non-member mortgagees to affordable housing developers and local government agencies. The loans would finance rent-to-own programs for low- and moderate-income households wishing to become homeowners. The FHLBank of Seattle has identified a credit need for the program and anticipates that the program can provide more favorable pricing than would otherwise be available while preserving the Bank's and System's triple-A rating.

DATES: Comments must be received in writing on or before September 8, 1997.

ADDRESSES: Individuals wishing to submit comments should provide written comments by mail to: Elaine L. Baker, Secretary to the Board, Federal Housing Finance Board, 1777 F Street, N.W., Washington, D.C. 20006. Comments will be available for public inspection at this address.

FOR FURTHER INFORMATION CONTACT: Greg Goggans, Senior Financial Analyst, Office of Policy, (202) 408–2878, or Roy S. Turner, Jr., Attorney-Advisor, (202) 408–2512, Office of General Counsel, Federal Housing Finance Board, 1777 F Street, N.W., Washington, D.C. 20006.

SUPPLEMENTARY INFORMATION:

I. Background

The Federal Home Loan Bank Act (Bank Act) provides that the part of the assets of each Federal Home Loan Bank (Bank) except reserves and amounts provided for at 12 U.S.C. 1431(g)) not required for advances to members, may be utilized for certain types of investments. This includes, to such extent as the Bank may deem desirable and subject to such regulations, restrictions, and limitations as may be prescribed by the Finance Board, such securities in which fiduciary and trust funds may be invested under the laws of the State in which the Bank is located. See 12 U.S.C. 1431(h). The Finance Board implements the investment provisions of the Bank Act through the Financial Management Policy (FMP).

The FMP establishes a framework within which the Banks are allowed to implement prudent and responsible financial management strategies that assist them in accomplishing their mission, and in generating income sufficient to meet their financial obligations, in a safe, sound, and profitable manner. Section II of the FMP specifies certain types of assets as permissible investments to the extent they are specifically authorized under 12 U.S.C. 1431(g), 1431(h), or 1436(a) of the Bank Act, or to the extent a Bank has determined that they are securities in which fiduciary or trust funds may be invested under the laws of the state in which the Bank is located. Investments that support housing and community development are permitted, provided that the Bank:

Ensures the appropriate levels of expertise, establishes policies, procedures, and controls, and provides for any reserves required to effectively limit and manage risk exposure and preserve the triple-A rating of the Bank and the Federal Home Loan Bank System:

Ensures that its involvement in such investment activity assists in providing housing and community development financing that is not generally available, or that is available at lower levels or under less attractive terms;

Ensures that such investment activity promotes (or at the very least, does not detract from) the cooperative nature of the System;

Provides a complete description of the contemplated investment activity (including a comprehensive analysis of how the above three requirements are fulfilled) to the Finance Board; and

Receives written confirmation from the Finance Board, prior to entering into such investments, that the above investment eligibility standards and requirements have been satisfied.

II. Pilot Proposal

The FHLBank of Seattle proposes investing up to a total of $25 million in FHA-insured loans originated by its members and non-member mortgagees to Housing and Urban Development (HUD)-eligible public and private non-profit organizations such as affordable housing developers and local government agencies. The purpose of the loans will be to finance rent-to-own programs for low- and moderate-income households. The loans will be 15- to 30-year, fully amortizing, fixed-rate mortgages that are FHA-insured under Section 203 of the Federal Housing Act. The terms of the proposal, which have not yet been considered by the Finance Board and are subject to change as part of the review process, are set out below.

Borrowers (non-profit organizations and local government agencies) will enter into ''lease to own'' arrangements with low- and moderate-income households wishing to become homeowners. A portion of each lease payment will be set aside until a sufficient amount is accumulated to make the 3 percent down-payment required for an FHA-insured loan. At that point, the tenant(s), if qualified under FHA program guidelines, will assume the mortgage. FHA insurance will be maintained throughout the life of the loan.

The loans will be originated by the FHLBank of Seattle's members and non-member mortgagees, that have been certified by HUD as Direct Endorsement Underwriters. The originators or other designated program participants will service the loans and must be HUD-FHA-approved or Government National Mortgage Association (GNMA)-approved servicing agents.

According to the proposal, all risk associated with these loans are manageable. All loans will be underwritten to FHA standards and the FHA will guarantee the principal repayment of each loan. The FHLBank of Seattle will sign a loan purchase and servicing agreement with each program participant. The originators will service the loan or contract with a FHLBank of Seattle-approved loan servicer. The servicer will handle all assignments or foreclosure activities, and assume responsibility for any shortfall in interest income. The servicer will absorb any interest losses. The servicing agreement will require the servicer to recover any expenses, such as foreclosures, from FHA. The agreement will include a buy-back clause for any loan determined to be ineligible for FHA insurance and/or not in compliance with State and Federal housing regulations. The FHLBank of Seattle will periodically review financial statements of all servicers and will monitor whether servicers remain in good standing with HUD.

The FHLBank of Seattle believes that because of these risk management efforts, losses are not probable and estimable and reserves are therefore unnecessary under generally accepted accounting principles. The Finance Board has final authority as to what reserves, if any, may be required for this program.

Interest-rate risk management will be handled the same as a pass-through security with a mix of consolidated obligations and other asset/liability management tools. Liquidity risk will be mitigated by the relatively small size of the pilot.

The FHLBank of Seattle will purchase the loans at a price/yield equivalent to that quoted for loans securitizing GNMA I securities instead of the lower price/yields for loans securitizing GNMA II securities. The FHLBank of Seattle indicates that the FHA-insured loans that will be purchased under the program are normally securitized into GNMA II securities instead of GNMA I securities because of the low volume of such loans, longer time to originate, and wider range of interest rates.[1]

The proposal also notes that the pilot will assist in providing financing under more attractive terms than are generally available. Program participants may sell such loans for immediate delivery to FHLBank of Seattle instead of accumulating a pool of loans required to securitize a GNMA security. This reduces the cost to the lender since it no longer has to hold the loans and hedge the interest rate risk associated with the loans until such time as sufficient quantity is accumulated for GNMA pooling. The lender may request from the FHLBank of Seattle a forward commitment of up to six months on a loan rate. Additionally, the FHLBank of Seattle will pay a servicing fee of 50 basis points to the servicer (lender) instead of the 44 basis points paid by GNMA (net of a 6 basis points fee for insurance).

The FHLBank of Seattle also believes that the pilot advances the mission of the Bank System because the pilot will stimulate more lending for lease-to-own programs. According to the FHLBank of Seattle, lease-to-own programs are costly for lenders to develop because of the low mortgage amounts as well as the higher costs associated with underwriting loans to non-profits and local housing agencies compared to loans to families/individuals. The FHLBank of Seattle intends to work to reduce the amount of time and hence the cost of underwriting the loans by providing technical advice to lenders and borrowers. In addition, origination of these types of loans for sale to the FHLBank of Seattle creates an opportunity for member and nonmember mortgagees to transact Community Reinvestment Act-eligible lending at more favorable rates.

[1] Single-Family pools for GNMA I securities are required to be $1 million or more while such pools for GNMA II securities have a minimum of $250,000. Loans placed into GNMA I securities may not vary by more than 50 basis points in rate whereas loans securitized into GNMA II securities may vary by 50 to 150 basis points in rate. The small pool size and the broader range enables more loans to fit into the GNMA II pools.

Finally, the FHLBank of Seattle believes that its proposal would enhance the cooperative nature of the System because the loans will be originated by members and approved non-member mortgagees of the FHLBank of Seattle. In addition, the FHLBank of Seattle will only purchase such loans directly from these originators and thereby provide a secondary market outlet for them. Members have informed the FHLBank of Seattle that the lack of a secondary market outlet has impeded them from making this type of loan. The proposal indicates that the pilot will therefore enhance the flow of credit to an under-served segment of the mortgage market.

Dated: August 1, 1997.

William W. Ginsberg,

Managing Director.

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BILLING CODE 6725–01–M

FEDERAL MARITIME COMMISSION

Notice of Agreement(s) Filed

The Commission hereby gives notice of the filing of the following agreement(s) under the Shipping Act of 1984.

Interested parties can review or obtain copies of agreements at the Washington, DC offices of the Commission, 800 North Capitol Street, N.W., Room 962. Interested parties may submit comments on an agreement to the Secretary, Federal Maritime Commission, Washington, DC 20573, within 10 days of the date this notice appears in the **Federal Register.**

Agreement No.: 202–011284–030.

Title: Equipment Interchange Discussion Agreement.

Parties:

A.P. Moller-Maersk Line
American President Lines
Hapag-Lloyd Container Linie GmbH
Kawasaki Kisen Kaisha, Ltd.
Mitsui O.S.K. Lines, Ltd.
Neptune Orient Lines, Ltd.
Nippon Yusen Kaisha Line
Orient Overseas Container Line, Inc.
Orient Overseas Container Line (UK) Ltd.
P&O Nedlloyd B.V.
P&O Nedlloyd Limited
Sea-Land Service, Inc.

Synopsis: The proposed Amendment modifies the authority of the Agreement to include discussion of matters within the scope of EIDA which were pending, or decided by other carrier agreements to which one or more of the members is a party. The authority is further modified to authorize the members to meet with the owners or operators of inland equipment depots, equipment pools or inland terminals to discuss and agree upon the terms, conditions and procedures related to the use of such facilities, as well as joint leases, joint contracts and joint purchase of such facilities. The Amendment also modifies Article 7 of the Agreement to create an Associate Membership, which permits new members to join the Agreement and participate in all discussions and agreements, with the exception of free time and detention charges. Article 8 is modified to state what matters the Associate Members may vote upon.

Agreement No.: 202–011375–031.

Title: Trans-Atlantic Conference Agreement.

Parties:

Atlantic Container Line AB
Cho Yang Shipping Co. Ltd.
Sea-Land Service, Inc.
A.P. Moller-Maersk Line
P&O Nedlloyd B.V.
Hapag-Lloyd Container Linie GmbH
Mediterranean Shipping Co., S.A.
DSR–Senator Lines
Pol-Atlantic
Orient Overseas Container Line (UK) Ltd.
Transportacion Maritima Mexicana, S.A. de C.V.
Neptune Orient Lines Ltd.
Hyundai Merchant Marine Co., Ltd.
P&O Nedlloyd Limited
Nippon Yusen Kaisha
Tecomar S.A. de C.V.
Hanjin Shipping Co., Ltd.

Synopsis: The proposed modification provides that Agreement parties are not precluded from sharing vessels with and or chartering space to or from vessel operating common carriers that are not Agreement parties, and that parties with related companies that offer non-vessel operating common carrier service in the trade pursuant to independent tariffs, shall not be obligated to ship only with Agreement parties. The modification also specifies that the parties are not authorized to coordinate sailing schedules, except when necessary for ad hoc, sporadic or emergency movements.

Agreement No.: 203–011584.

Title: NYKNOS/HUAL Rate Discussion and Voluntary Rate Adherence Agreement.

Parties: NYKNOS (East/West) Joint Service (FMC No. 207–011441) Hoegh-Ugland Auto Liners A/S

Synopsis: The proposed Agreement would permit the parties to meet, discuss, and agree upon rates, terms, and conditions of service in the trade