

RESTARTING THE MORTGAGE MARKETS

LINKING COMMUNITY LENDERS TO THE CAPITAL MARKETS

YEARS AFTER THE GREAT FINANCIAL CRISIS, many average Americans still cannot obtain affordable mortgage loans despite historically low interest rates. At least in part, this is due to the withdrawal of many capital markets participants from U.S. mortgage markets following the collapse of the U.S. mortgage securitization market in the crisis.

In a novel transaction, in 2013 and 2014 we represented the Federal Home Loan Bank of Chicago (FHLBC) in establishing a new residential mortgage conduit program called “MPF Direct.” MPF Direct is a new addition to the “Mortgage Finance Partnership” program administered by the FHLBC, in which 10 of the 12 regional Federal Home Loan Banks in the United States participate. Through the MPF Direct program, the FHLBC acquires “jumbo” mortgage loans (loans with principal balances in excess of the Fannie Mae and Freddie Mac loan limits) from smaller community lending institutions and re-sells them to Redwood Trust, Inc., a California-based mortgage REIT, which packages the loans into private-label mortgage-backed securities issued into the U.S. and international capital markets.

MPF Direct provides small community banks throughout the United States with a securitization-based outlet for their jumbo mortgage loans. Otherwise, most community banks would not have the volume or market presence to participate in the secondary market for these loans on a cost-efficient basis and would have to hold them in portfolio, severely limiting their capacity to originate new loans. This program is a significant step forward in restarting the non-agency mortgage markets and expanding needed mortgage credit to borrowers whose loans are not eligible for sale to Fannie Mae and Freddie Mac. MPF Direct is a big idea. You might say a jumbo idea.