

Federal Home Loan Bank of Chicago

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The Business

The Federal Home Loan Bank of Chicago (FHLBC) is a \$36 billion wholesale housing finance bank. It is one of 12 institutions that make up the Federal Home Loan Bank System. Its superior credit quality has earned the bank high marks from Standard & Poor's Ratings Service and Moody's Investor's Service.

In 1997, the FHLBC uncovered a new opportunity to increase revenue. It could fund cheaper and better-serviced home loan mortgages on the secondary market. (Secondary market institutions like Fannie Mae purchase residential mortgages from loan originators and sell them to investors as securities.) The main players in this market – the government-regulated Fannie Mae and Freddie Mac agencies – had monopolies. The virtual absence of competition made high rates and poor service the norm. Lending institutions felt frustrated and powerless. These factors combined to create a great opportunity for the FHLBC.

To capitalize on this opportunity, FHLBC developed the Mortgage Partnership Finance (MPF) program. It creates a partnership between the bank and its participating member banks. Together they can better manage the risks of long-term, fixed-rate mortgages. It also provides member banks with a competitive alternative to Fannie Mae and Freddie Mac while giving FHLBC a source of increased revenue.

The Challenge

To properly implement its new program, the FHLBC needed to purchase individual mortgages from member banks. However, the bank faced a major obstacle. Its systems were designed primarily for "bulk" lending. The bank's existing infrastructure could not support its new role. Launching the program, in fact, was far from simple. The FHLBC would need to gut and rebuild its existing infrastructure to properly serve member banks.

The Stakes

Great opportunities often carry great risks. If the new infrastructure did not support the new business processes correctly, or if it was poorly implemented, it would cause the

service to fail. This scenario carried severe negative ramifications. Not only could the bank lose an opportunity to gain a competitive advantage in a niche market, it could damage its relationships with existing bank members and damage its reputation for superior quality.

The Solution

The significance of the challenge sent the FHLBC seeking a technology partner. On the advice of one of its senior managers, the FHLBC turned to eVentive. The manager had worked with eVentive before and knew of the firm's expertise with complex integration.

eVentive quickly evaluated the bank's existing infrastructure. From its assessment, eVentive prepared a strategic technology plan that prepared the FHLBC to handle individual mortgages. The plan would link the many legacy systems within the bank and create a workflow that followed the bank's many business rules and security requirements.

eVentive implemented the plan over three major phases with the most recent phase providing on-line access and the purchase of portfolios of mortgages. Additionally, eVentive provided the project management, testing and training required to support each phase.

The Benefit

With the help of eVentive, the bank successfully established itself as a noteworthy alternative to secondary market mortgage companies. In addition to a marked increase in revenue, the lender achieved greater diversification in its offerings – and greater stability as a result. Most importantly, it has raised its appeal among its member banks.