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**VOLUME**



## SECONDARY MORTGAGE OPERATIONS CONFERENCE

October 23, 2008 | 8 am - 4 pm



## MPF<sup>®</sup> Risk & Reward

### Understanding the MPF<sup>®</sup> Program Credit Enhancement Obligation & Fee

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Mortgage Partnership Finance<sup>®</sup> Program

# Loan Presentment

## ▶ Purpose and Data Transfer

- **Loan Presentment Purpose**
  - The process of entering loan data from the loan application and transmittal summary
  - The process of determining the amount of Loan Level Credit Enhancement
- **Entering data is done electronically on eMPF®**  
**([www.fhfb-mpf.com](http://www.fhfb-mpf.com))**
  - Loan Presentment Form – via eMPF
  - Batch Presentment – via eMPF



## ▶ Loan Presentment - eMPF

PFI Information	Loan Statistics
Date Submitted: 2/24/2004 PFI Name: LaSalle, FSB PFI Number: 4001 PFI Loan Number: 555 Submitter Name: Contact Name Submitter Number: 1 Fax Number: 312-565-5341 MC Number: 7001 Loan Type: Table Funded Product Type: Fixed 15 Year Term: 60 MERS Min Number:	Note Rate (%): 7.000 Appraised Value (\$): 150,000.00 Original Loan Balance (\$): 100,000.00 Estimated Closing Date: 12/25/2004 LTV (%): 66.666 Subordinated Financing: <input type="radio"/> Yes <input checked="" type="radio"/> No TLTV (%): 0.000 Housing Expense Ratio (%): 25.000 Total Debt Ratio (%): 27.000 PMI (%): 0.000 PMI Company: No PMI Documentation Type: Expedited (streamlined) refi documentation Asset Verification: <input type="radio"/> Yes <input checked="" type="radio"/> No Auto Underwriter/System Decision: None Appraisal Type: Full Appraisal Third Party Origination: <input type="radio"/> Yes <input checked="" type="radio"/> No Buydown: <input type="radio"/> Yes <input checked="" type="radio"/> No Special Feature Codes: 1: 2: 3: 4: 5: 6:
Borrower Information	Optional Information
Borrower's First Name: storm Borrower's Middle Initial: Borrower's Last Name: storm Total Number of Borrowers: 1 NextGen FICO: <input type="radio"/> Yes <input checked="" type="radio"/> No Self Employed: <input type="radio"/> Yes <input checked="" type="radio"/> No First Time Buyer: <input type="radio"/> No Ethnicity: No Info Provided Race: No Info Provided Gender: No Info Age: 22 Date of Birth: 5/24/1966 Monthly Income (\$): 5,000.00	Cash Reserves at Closing (\$): No. of Months Reserves at Closing: PITI Payment Amount (\$): Total Other Debt (\$):



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## Loan Level Credit Enhancement



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## ▶ Loan Level Credit Enhancement

- Data from the Loan Presentment Form is transferred into an industry risk model.
  - System assesses probability and severity of loss
  - System calculates a percentage of the loan amount needed to credit enhance the loan to “AA” rated equivalent.

This is called the Loan Level Credit Enhancement (LLCE)



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## ▶ Loan Level Credit Enhancement

Federal Home Loan Bank of Chicago Loan Credit Enhancement Report as of 12/15/2005			
PFI Number : 1024	PFI Loan Number : 123456		
PFI Name : 1234 PFI	Business ID : PFI CONTACT		
<b>Borrower Information</b>			
Borrower Name : John Doe	Co-Borrower Name :		
Ethnicity : Not Hispanic or Latino	Ethnicity :		
Race/National Origin : White	Race/National Origin :		
Gender : Male	Gender :		
Age : 50	Age :		
Date of Birth : 1/20/1955	Date of Birth :		
Monthly Income : \$3,527.50	Monthly Income :		
Social Security Number : 123-45-6789	Social Security Number :		
FICO Score : 750	FICO Score :		
Next Generation FICO : No	Next Generation FICO :		
First Time Home Buyer : No	First Time Home Buyer :		
<b>Loan Details</b>			
Loan Origination Source : Retail	MERS M/N :		
Loan Plan Type : Conventional	Loan Purpose : Home		
Occupancy : Primary Residence	Loan Features : 30yr		
Loan Type : Closed	Product Type : Fixed 30		
Term (months) : 360	Rate Rate : 6.00%		
Original Loan Amount : \$162,000.00	Appraised Value : \$250,000		
Subs Price : \$162,000	Rate Date : 12/15/05		
Loan to Value : 65.00%	Subordinated Financing : No		
Total Loan To Value : 65.00%	Holding Expense Ratio : 10.00%		
Total Debt Ratio : 38.00%	PMI% : 0.00%		
PMS Category : No PMS	Documentation Type : Full Doc		
Asset Verification : Yes	AIRB / Decision Type : Automated		
Appraisal Type : S&S/ARF Form 1004, Form 1	Buydown : No		
<b>Additional Information</b>			
Cash Reserves at Closing :	# Mos. Reserves at Closing :		
PITI Payment Amount :	Total Other Debt :		
<b>Closed Loans Only</b>			
Principal & Interest Amount : \$1,037.30	Outstanding Loan Balance : \$162,000.00		
First Payment Date : 1/1/2006	Next Payment Date : 1/1/2006		
Maturity Date : 12/15/2035			
<b>Score Information</b>			
Loan Credit Enhancement Percent : 0.93%			
Loan Credit Enhancement Amount : \$1,519.88			
When Loan Credit Enhanced : 12/15/2005 2:21:49 PM			
<b>Additional Information</b>			
Cash Reserves at Closing :	# Mos. Reserves at Closing :		
PITI Payment Amount :	Total Other Debt :		
<b>Closed Loans Only</b>			
Principal & Interest Amount : \$1,037.30	Outstanding Loan Balance : \$162,000.00		
First Payment Date : 1/1/2006	Next Payment Date : 1/1/2006		
Maturity Date : 12/15/2035			
<b>Score Information</b>			
Loan Credit Enhancement Percent : 0.93%			
Loan Credit Enhancement Amount : \$1,519.88			
When Loan Credit Enhanced : 12/15/2005 2:21:49 PM			

This \$1,519.88 is the Loan Level Credit Enhancement (LLCE) amount



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# The Credit Enhancement Obligation “Sharing in the Credit Risk”

## ▶ LLCE & the Credit Enhancement Obligation

- Each loan is presented individually on the Loan Presentation Form
- The amount of the LLCE is calculated on loan
- Once loan is sold into the Program, each LLCE becomes part of the overall CE Obligation
- The LLCE is loan specific
- The CE Obligation is Master Commitment (MC) specific

Credit Enhancement Obligation

LLCE

+

LLCE

+

LLCE



## ▶ Active Master Commitment Summary

<i>Federal Home Loan Bank of Tonka</i>				
<i>Active Master Commitments - Summary</i>				
<i>funded through 12/29/2006</i>				
<i>PFI Number:</i>				
<i>MC Number:</i>				
<i>Totals for MC Number:</i>				
<i>Original (Contract) CE:</i>	\$1,225,000.00	<i>MC Pool Amount:</i>	\$35,000,000.00	
<i>Pool (Total Used) CE:</i>	\$896,243.61	<i>Delivery Commitment Amounts:</i>	\$25,316,322.57	
<i>Balance (Available) CE:</i>	\$328,756.39	<i>Amount Fulfilled to Date:</i>	\$25,176,322.57	
		<i>Outstanding Delivery Commitment</i>	\$140,000.00	
		<i>Amount Available:</i>	\$140,000.00	
<i>Highest Zip Code Concentration</i>	67432	10.889%	<i>Number of Loans to Date:</i>	266
<i>Average Loan Level CE</i>	3.560%		<i>Total Paid Off Fees by MC:</i>	\$8,136.39
			<i>Total Extension Fees by MC:</i>	\$12,011.38
			<i>MC Expiration Date:</i>	7/20/2007
			<i>MC Program:</i>	Original
			<i>Remaining MC Available:</i>	\$9,823,677.43
<i>PFI Summary Totals</i>				
		<i>Delivery Commitment Amounts:</i>	\$25,316,322.57	
		<i>Amount Fulfilled to Date:</i>	\$25,176,322.57	
		<i>Remaining Amount Available:</i>	\$140,000.00	
		<i>Number of Loans to Date:</i>	266	



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## ▶ What does having a CE Obligation mean?

- **CE Obligation is the maximum amount of loss coverage you are responsible for in the event losses from your MC cannot be covered by:**
  - Home Owner Equity
  - Primary Mortgage Insurance, (if applicable)
  - FHLBank's First Loss Account (FLA)
- **The Hierarchy of Loss structure is a key part of the Risk/Reward concept of the MPF Program**



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# Hierarchy of Loss

## ► Credit Risk Sharing Structure Original MPF Product

Homeowner Equity

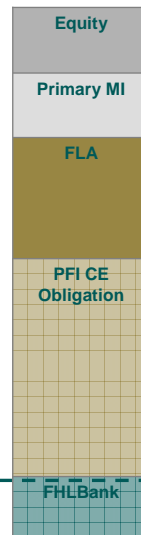
Primary Mortgage Insurance

**First Loss Account (FLA)**

Per annum calculation of 4 bps of unpaid principal of loans in MC

Designed to cover normal and expected losses

Member CE Obligation



FHLBank Topeka



## ▶ FHLBank Topeka Fundings vs. Losses

- **As of September 30th, 2008**
  - Total number of loans: 46,360
  - Gross fundings: \$6 billion
  - Number of loan losses: 41
  - FLA coverage: \$482,581
  - CE Obligation coverage: \$23,073



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## ▶ Why take on the CE Obligation?

- **No Guarantee Fees**
- **No risk-based pricing**
- **You control your exposure**
- **Credit Enhancement Fee income**



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## ▶ CE Obligation = Contingent Liability

- **CE Obligation is a contingent liability**
  - Contingent upon losses not covered by homeowner equity, PMI or FLA
- **Soft dollar; off-balance sheet item**
- **FHLBank does not collect money to fund obligation**
- **Other liabilities – event driven**
- **Your share of the credit risk**

## The Credit Enhancement Fee



## ▶ Credit Enhancement Fee

- **Revenue stream paid to PFI for sharing in the credit risk on loans sold into the MPF Program**
  - Up to 10 bps per annum of the unpaid principal balance, paid monthly
    - CE Fee income is guaranteed



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## ▶ Credit Enhancement Fee

- **Calculation**
  - Based on Unpaid Principal Balance (UPB) each month
    - CE Fee = 10 bps
    - UPB = \$10 million
    - $10,000,000.00 \times .0010/12 = \$833.33/\text{monthly income}$
- **Where to find it**
  - Pool Detail Report
    - eMPF “Reports”
      - CE Fee
      - Cumulative CE Fee

**This is a real future income stream for your institution and should be considered when determining where loans will be sold.**



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## ► Pool Detail Report

PFI Number:										
MC #	Originations	Outstanding	Scheduled Principal	Curtailments	Liquidations & Adjustments	Total Principal Paid	Service Fees	CE Fees		
Delinquencies	25,176,323	22,819,577	39,272	8,878	294,206	342,356	4,330	1,861		
	25,176,323		39,272		294,206		4,330			
		22,819,577		8,878		342,356		1,861		

Total Fees	Cumulative Servicing Fees	Cumulative CE Fees	Spread	Cumulative Spread	Spread Decrements	Cumulative Decrements
6,181	74,417	31,866	693	11,914	0	0
6,181		31,866		11,914		0
	74,417		693		0	

## ► Credit Enhancement Fee: Review



- **Up to 10 bps annually, paid monthly**
- **Income above and beyond:**
  - Transaction price proceeds
  - SRP
  - Servicing income
- **Rule of Thumb**
  - However many \$\$\$ millions you produce annually roughly translates into that many in \$\$\$ thousands paid to you
- **More than \$14 million paid out to PFIs since 2004.**

# Pricing

## ▶ Risk-based Pricing vs. MPF Pricing

- **Risk-based pricing**
  - Most standard secondary market investors provide you a base price, then have certain loan level adjustments or “dings” depending upon:
    - Type of loan – C/O refinance, refinance
    - Type of property – manufactured home, 3-4 unit O/O
    - Loan Statistics – LTV, Credit Score
- **MPF pricing**
  - MPF Program pricing does not adjust regardless of the type of loan you are selling into the Program (excluding term or remittance)
    - The only adjustments you may find will occur in the LLCE



## ▶ MPF Pricing and Income (all-in execution)

### All-in Execution

**Asset Price & SRP\*** **Asset Price** (plus SRP if sold service-released)

**Servicing Fee\*** **Servicing Fee** (if sold service-retained)

**Float\*** **Float** (if remittance is once per month)

**CE Fee** **Credit Enhancement Fee**  
(risk/reward annuity; unique to MPF Program)

**Dividend** **Dividend - FHLBank member benefit**



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## ▶ Loan Level Price Adjustment Comparison

**Agency Loan Level Price Adjusters are putting a pricing stranglehold on the industry.**

Sample Agency Price Adjustments		FHLBank MPF® Price Adjusters	
Adverse Market	0.250	Adverse Market	0.000
LTV/FICO	0.250 – 2.750	LTV/FICO	0.000
2-4 Units	0.500 – 1.000	2-4 Units	0.000
Cash Out	0.500 – 0.750	Cash Out	0.000



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Comparative Pricing Analysis

# ► Pricing Comparison

For: \_\_\_\_\_

Date: \_\_\_\_\_

Loan Characteristics	FHLBank MPE	Investor
Amortization (30-yr vs 15-yr fixed)		
Commitment Term (see FHL)		business days
Commitment Type (Mandatory vs non-Mandatory)	Mandatory	
Base Rate		
Base Price (per 100)		
+ SPP, if applicable		
+ Servicing Value, if applicable		
+ Credit Enhancement Bonus (if offered)	0.200	NA
<b>All in Price BEFORE Adjustments</b>		
- Adverse Market LLPA	0.00	
- FICO/TV Score LLPA	0.00	
- Additional TV LLPA	0.00	
- Cash-out LLPA	0.00	
- Expanded Approval LLPA	0.00	
- Multi-Unit LLPA	0.00	
- Low Loan Amount LLPA	0.00	
- Other	0.00	
<b>All in Price AFTER Adjustments</b>		



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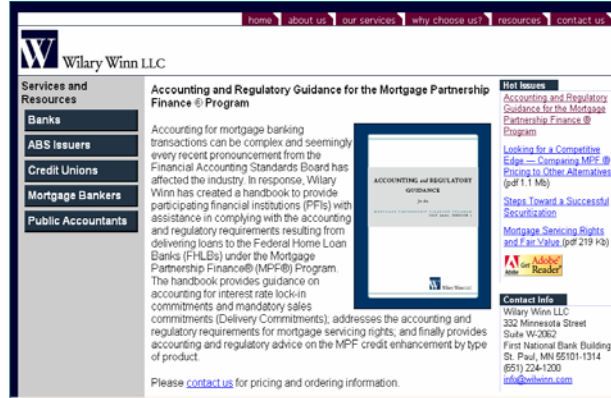
# Accounting for the CE Obligation



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## ▶ MPF Accounting Manual

- Provides assistance for PFIs in complying with accounting/regulatory requirements
- Developed by Wilary Winn
  - Industry experts in secondary market accounting/regulatory requirements



## ▶ Summary

- **The Loan Process**
  - Provides info to determine investment quality of loan
- **Loan Presentment**
  - Process of inputting loan information to determine LLCE
- **LLCE**
  - Amount of enhancement needed to bring loan up to “AA” investment-quality equivalent
- **CE Obligation**
  - Your share of credit risk - sum of all LLCEs from loans sold by MC (minus FLA for MPF 125 & MPF 100)

## ▶ Summary

- **Hierarchy of Loss**
  - Levels of loss coverage unique to the MPF Program
- **CE Fee:**
  - Payment you receive for sharing in the credit risk with the FHLBank
- **Risk-based Pricing:**
  - Pricing which fluctuates depending upon individual loan factors including LTV, FICO and loan type

## ▶ Upcoming Risk/Reward Presentation

- **Our next full version of the Risk/Reward presentation will be held:**
  - **Wednesday, November 5<sup>th</sup>**
    - 2:00 to 3:00 p.m. CT
  - **You may register by emailing:**
    - [Mpfmail@fhlbtopeka.com](mailto:Mpfmail@fhlbtopeka.com)



▶ Questions?

**Thank You**



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