

FIRST NATIONAL BANK OF WAHOO: MPF® PROGRAM IS SOMETHING TO CHEER ABOUT IN NEBRASKA

FNB Wahoo has been an FHLBank member since 1994. With more than \$90 million in assets, the bank serves the community in and surrounding Wahoo, Neb., as well as the southeast corner of Nebraska with branches in Sterling and Burchard.

The town of Wahoo has the distinct advantage of sitting equidistant from both Omaha and Lincoln. Located about 30 miles north of Lincoln and 30 miles west of Omaha, the First National Bank of Wahoo has used FHLBank's Mortgage Partnership Finance® Program to its advantage since 2002. With more than \$19 million sold into the MPF® Program, FNB Wahoo now has a product that allows it to be more competitive in the smaller communities it serves, and provides another tool in establishing long-term relationships with its customers. Elizabeth Rezac, vice president, decided that is why the MPF Program works for her institution.

WHY MPF?

Although the MPF Program offers the Participating Financial Institution (PFI) the ability to sell loans both service-retained or service-released, FNB Wahoo considers the opportunity to service its customers' loans one of the main reasons they chose the Program. Or, as Elizabeth put it, "We don't want our customers dealing with other banks."

When asked why the MPF Program has been so successful at FNB Wahoo, Elizabeth answered, "I'm the underwriter, so everything goes a lot quicker. I can get back to my customer much sooner than if I had to work with a third party. I can close a loan a lot faster this way, and that is one of the main reasons I chose MPF."

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- ELIZABETH REZAC
VICE PRESIDENT
FIRST NATIONAL BANK OF WAHOO

Chris Endicott, MPF relationship manager, added, "With the service retained option, you get the ongoing servicing income as well as the Credit Enhancement fee income ... the intangible of cross selling is hard to quantify, but when you're holding the servicing of the loan, what you may give up in upfront service released premium income, you make up over the long term and then some according to our numbers."

POINT OF SALE

"We want our customers to be able to do everything in one stop at FNB Wahoo," Elizabeth said. "By having everything here, our customers come into the bank more frequently, and when they are here, that gives us the opportunity to cross sell them another product, whether it's a child's checking account, safety deposit box,

home improvement loan, etc.," she added. "We want our customers to use our bank exclusively, and this is a product that allows us that opportunity. Oftentimes, if you sell to another investor, the customer will go to them when they want an addition on their house or a home equity line of credit."

HOW MPF WORKS FOR FNB

Despite FNB's small staff, they are able to service their \$13.6 million servicing portfolio easily. "I'm the loan officer and Jackie Bergman, loan operations officer, handle the servicing and reporting," said Elizabeth. "We have one other employee in the office that works with Jackie when needed. We're able to do the servicing in our bank without having added staff. That means more money for our bank." FNB considers the .25 basis point servicing fee as its payment

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Elizabeth Rezac, vice president of First National Bank of Wahoo, with bank President and CEO Steve Sallenbach. First National Bank of Wahoo has been an FHLBank member since 1994 and has been a Participating Financial Institution in the MPF Program since 2002.

to service the loans sold into the MPF Program.

Elizabeth says there have been no problems entering loans into their servicing system. "Our bank was one of the first ones to start using the MPF Program with this software ... so it took a little time to work out all the glitches, but everything is running smoothly now."

Automated Underwriting Systems (AUS) can be used with the MPF Program; however, the Program doesn't require its use. FHLBank PFIs have the flexibility to manually underwrite all loans sold into the Program. For FNB Wahoo, they choose to manually underwrite. "I've looked into automated underwriting, but at this point, we do not use it. That's a cost savings we can pass on to our customers," Elizabeth said.

The MPF HelpDesk was also pivotal in getting FNB started four years ago. When it comes to obstacles, FNB had a slight learning curve on investor reporting. "Initially, I did have to set up some spreadsheets, which really helps out. Whenever anything new came up, Jackie would call the HelpDesk and get things figured out." Now, the entire process is much easier for Elizabeth and Jackie.

One of the unique characteristics of the MPF Program is the Credit Enhancement obligation, or the member's share in the credit risk of loans sold into the MPF Program, which FNB doesn't see as a major issue. Kathy Schmidtberger, director of MPF, agreed. "With only 12 loans at a loss status out of 39,460 loans purchased (or 0.03 percent), it's clear that the MPF Program is about rewarding our customers for good credit quality," she said.

SELLING LOANS

"Selling loans into the MPF Program is not difficult," said Elizabeth. "My previous experience in selling into the secondary market has really helped us best utilize the Program."

Although MPF allows multiple loans per Delivery Commitment (DC), most banks do not choose this option, and FNB Wahoo is not an exception. "I lock one loan per DC (or rate lock) – I never fund multiple loans into a single delivery commitment," she explained. This is a general practice that has helped eliminate the risk of unforeseen reduction in a mortgage pipeline for FNB.

MANAGING MANDATORY DELIVERY

MPF DCs are mandatory, and for some members, this has raised some concern.

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MPF® PROGRAM WORKING FOR FNB WAHOO

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Elizabeth discussed the steps she follows in managing mandatory delivery:

1. *I don't lock a delivery commitment until I'm almost positive it's going through. I'll wait until I know the appraisal is okay and the income is verified, etc.*
2. *I take a \$500 rate lock agreement fee from the individual. When the loan closes, we then apply it toward the closing cost. If they cancel, or it doesn't go through, then the \$500 covers our potential loss for not funding our delivery commitment. That also keeps our customer from going somewhere else.*
3. *Sometimes, we'll cancel delivery commitments and relock if rates are going down, and we'll pay a small fee for that. But if we were going to close and fund within three days, I can use a 3-day delivery commitment which pays a better price. Often that can make up for the loss from the canceled delivery commitment.*

REMITTANCE OPTIONS

The MPF Program offers three separate remittance options (Actual/Actual single remittance, Actual/Actual multiple remittance, and Scheduled/Scheduled), each providing a different pricing structure. The pricing differences primarily result from how frequently mortgage payments are remitted and the related float income obtained while holding the payments.

With the Actual/Actual (A/A) multiple remittance option, the institution is required to remit funds to FHLBank whenever collections are greater than \$2,500, net of servicing fees. For this, the institution is paid a higher upfront price than the Actual/Actual single remittance, thus allowing them to offer a lower rate yet still make a profit on the loans they sell.

The increased upfront price and ability to offer a lower rate provided by A/A multiple remittance has helped FNB Wahoo. "The multiple remittance option has certainly helped us be more competitive in the marketplace, especially in a market that includes competition from the two largest cities in Nebraska - Omaha and Lincoln," Elizabeth said.

LOAN PRICING

FNB Wahoo's goal is to make a certain upfront price. That can't always be done on some of its larger loans, but usually, that does happen. Additionally, there's the ongoing Credit Enhancement fee income against the unpaid principal balance of that loan along with the income paid for servicing the loan.

To date, FNB has accumulated nearly \$104,000 in servicing fee income and more

than \$43,000 in Credit Enhancement fee income just for participating in the Program and sharing in the credit risk. That income continues until the last loan in the master commitment is paid off, which is future income that the PFI doesn't have to do anything else for ... the loan is already made.

WORD OF MOUTH - THE BEST WAY TO ADVERTISE

Word of mouth ... in a small community, that method is definitely tried and true. Elizabeth said they've used local advertising but the costs are high, and they've recently cut back. While she acknowledges that there are still plenty of folks who automatically think they need to go to Omaha or Lincoln to get a long term fixed rate mortgage, in a small community like Wahoo, people know her and hear about the long term fixed rate mortgage option. "People here know who I am and know what this bank has to offer.



From left to right: Jackie Bergman, FNB Wahoo loan operations officer, Kathy Schmidtberger, FHLBank director of MPF, and Elizabeth Rezac, FNB Wahoo vice president, met in November to discuss how the MPF Program is working for FNB Wahoo. Rezac said the Program gives her another product she can offer her customers that keep them coming back to her bank.

“THIS PROGRAM HAS ALLOWED US THE ABILITY TO OFFER A FIXED-RATE PRODUCT WHILE KEEPING THE SERVICING IN-HOUSE. OUR CUSTOMERS GREATLY APPRECIATE THEIR LOANS NOT BEING SOLD OFF.”

- STEVE SALLENBACH
PRESIDENT AND CEO
FNB WAHOO

They come on recommendations from others, and that has worked well for us,” she said. “Of course, we will always look for ways to continue to be active in our communities, but word of mouth has definitely worked for us.”

CHALLENGES

Like other community banks, internet mortgage brokers can sometimes wreak havoc on FNB. “Our potential customers will pull up internet rates and see there are no costs and 2 percent forever, so they’ll send in their \$500. By the time they’re done, they’re paying 9 percent and \$5,000 in fees, but by then, it’s too late,” Elizabeth explained. “That can be really tough for the customer and for small banks. I think our largest advantage here is how we take care of our customers,” she added. “We pride ourselves on the relationships we have with them.”

Good-old fashioned, one-on-one customer service is what seems to work best for FNB. That’s where MPF’s service-retained option comes into play. “It’s a very good selling point for our customers - they like to call in and see what their balance is, or they want to apply their tax return to their principal. It’s hard to do that through a loan sold to a mortgage broker. Our customers like the convenience of being able to talk with us directly,” she said.

However, some people are accustomed to shopping online and accustomed to not having that kind of relationship because their only concern is rate. Elizabeth’s response is, “You have to gauge your customer ... you have to have a feel for them.” At FNB Wahoo, she does the best she can for her customers, because chances are, she’s grown up with them and their families.

GOAL: CUSTOMER SATISFACTION

Steve Sallenbach, FNB Wahoo president and CEO, agreed that the MPF Program has been very beneficial to their customers. “This program has allowed us the ability to offer a fixed-rate product while keeping the servicing in-house. Our customers greatly appreciate their loans not being sold off,” he said.

For Elizabeth, the answer is quite clear. “I’m the underwriter, I have total control, and the customer comes to me. It’s as simple as that ... that is what I love most about the MPF Program.”

To learn more about the MPF Program, contact your account manager. To learn more on how FNB Wahoo used the MPF Program in conjunction with FHLBank’s Rural First-time Homebuyer Program to make a difference in the life of a single mom, read the story on page 10.

MPF® PROGRAM ADVANTAGES

Much-needed competition and balance is added to the secondary mortgage market benefiting mortgage lenders and American homebuyers.

Mortgage risks are optimally managed through a unique partnership combining the retail credit expertise of a local mortgage lender with the wholesale advantages of a Federal Home Loan Bank. Each partner handles what it does best.

Community lenders have a more profitable and efficient option than selling mortgages to a secondary market agency.

Every dollar of MPF funding directly helps an American family purchase a new home or lowers the cost of their existing home, furthering the mission of the FHLBank Topeka.

For more information on the MPF Program, contact your account manager.

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