

MORTGAGE PARTNERSHIP FINANCE® PROGRAM

Working with USDA's Guaranteed Rural Housing at GNB Mortgage in Horton, Kansas

With the steady income stream from the MPF® Program's monthly Servicing income, Credit Enhancement Fee income, competitive pricing, and now with the recent addition of the GRH Section 502 product, MPF remains GNB Mortgage's investor of choice. For GNB, the MPF Program is just common sense.

GNB Mortgage is a fully-owned subsidiary of Girard National Bank, in Girard, Kan. Because of Girard National Bank's membership, GNB Mortgage is able to take full advantage of the MPF Program. When GNB acquired Kansas State Bank in 2002, it also acquired that bank's \$48 million mortgage servicing operation in Horton, Kan. Currently, GNB Mortgage provides all secondary market servicing and manages a \$108 million servicing portfolio. Eleven branches are currently funneling their fixed-rate loans through GNB Mortgage's Horton office.

ABOUT GNB MORTGAGE'S MPF OPERATIONS

Liz Alkhateb, president of GNB Mortgage, serves 1,600 customers with a staff of five, and has been with FHLBank's MPF Program since July 2003. To date, GNB Mortgage has sold 305 conventional loans into the program and nine government loans since the MPF Program began accepting the Guaranteed Rural Housing Section 502 product on February 1, 2007. GNB was one of the first participating financial institutions to sign up and one of the first PFIs to sell a Section 502 loan to FHLBank Topeka.

When considering the MPF Program, Mark Schifferdecker, president and CEO of Girard National Bank, was looking for a product that would enhance GNB's single-family mortgage business. "MPF is more competitively priced than our other investors, giving GNB a financial edge," Mark said. "We just love the MPF Program - it's structured so the risk of loss does not scare us."

GNB Mortgage converted from MPF's single remittance to its multiple remittance option, a process that Liz found to be very easy. "About 80 percent of our customers pay prior to the 15th, with about 18 percent paying on the 15th, so we're making most of our remittances with the A/A option in the front part of the month."

A/A or Actual/Actual Remittance features an investor reporting and remittance option similar to agency actual/actual and a competitive up-front price 35 basis points better than A/A single



Building Communities Together



remittance pricing. This option is structured so that Participating Financial Institutions (PFIs) transfer funds to their MPF Bank non-interest bearing custodial deposit account whenever the collected principal and interest (P&I) net of servicing fees exceeds \$2,500. This structure is easy for back-office operations, as the reporting for A/A is identical to A/A single remittance. PFIs will find the actual/actual remittance option particularly attractive if they value the up-front price benefit and are knowledgeable in actual/actual investor reporting.

There is no burden on the servicing side of the loan either. Liz noted a few small differences between servicing Guaranteed Rural Housing Section 502 loans and conventional loans. Property inspections are done the same as on a conventional loan. With Guaranteed Rural Housing, GNB Mortgage is more aggressive on resolving issues before they go to foreclosure, but Liz finds there is not a huge difference on servicing.

When it comes to handling mandatory delivery into the MPF Program, Liz makes sure they are reasonably certain the loan is going to lock before setting up the delivery commitment. GRH loans have to have USDA approval before they lock, so those are normally 3-day locks whereas conventional loans are 30- to 45-day locks. "If I could manage the

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- Liz Alkhateb
President, GNB Mortgage
(pictured here with USDA's Richard Boyles)

interest rate risk on these loans, I would keep them on my books," Liz said. "I would fund GRH loans with my own money, I am that confident in them."

ABOUT GRH SECTION 502

Guaranteed rural housing is a huge part of the biggest market of first-time homebuyers. GNB Mortgage is a nationally approved GRH Section 502 lender, and is the second largest originator in Kansas. "Many banks have the expectation that the borrower needs to pay 20 percent down," Liz said. "The reality is borrowers don't have 20 percent - they barely have 5 percent. Guaranteed Rural Housing Section 502 loans fit that niche in Kansas."

"It's just common sense to offer a loan that's 90 percent guaranteed by the government," Liz continued. She acknowledged that government loans tend to have a higher national delinquency ratio, but countered, "We're at a 2 percent ratio last month compared to the national average around 11 percent," which she attributes to Kansas' stable market.

Liz has found Rural Development to be very cooperative and accessible, and having local loan approval officials is a huge bonus. "If you've got something that just doesn't quite fit the guidelines and you need clarification, you can get to someone quickly. When we have borrowers at 100 percent

experiencing financial stress, they of course don't have equity to sell. We don't have to assume that a foreclosure is going to happen. With assistance from Guaranteed Rural Housing, we can work with less-than-perfect credits, while not taking unnecessary risks."

GRH SECTION 502 AND FHLBANK'S AFFORDABLE HOUSING PROGRAM

When the GRH product is paired off with FHLBank's Affordable Housing Program or Rural First-time Homebuyer Program grants, that is where Liz's common sense really pays off. Layering these grant programs helps GNB Mortgage get borrowers into homes at very low costs.

Liz works closely with Homestead Affordable Housing in nearby Holton, Kan., a nonprofit agency devoted to senior and family housing in rural communities that leverages FHLBank Topeka's AHP funds to provide down payment, closing cost, and rehabilitation assistance. Homestead received \$400,000 in AHP subsidies in 2005 and \$450,000 in additional AHP subsidies through Girard National Bank in 2006.

"I see too many times where conventional lenders don't consider layering FHLBank's AHP and RFHP

By combining FHLBank's grants with GRH loans, Liz is able to meet 100% of the financing needs for the low-income and very low-income need customers, at very little risk to GNB Mortgage. With a 90% guarantee on the 502, and an additional \$3,750 in AHP grants for each of her 502 loans, there is virtually no risk to GNB Mortgage."

- Richard Boyles
Area Director, USDA Rural Development

grants with GRH loans," said Richard Boyles, area director of USDA's Rural Development. "They'll take one or the other, but not think to combine them. By combining FHLBank's grants with GRH loans, Liz is able to meet 100 percent of the financing needs for the low-income and very low-income need customers, at very little risk to GNB Mortgage. With a 90 percent guarantee on the 502, and an additional \$3,750 in AHP grants for each of her 502 loans, there is virtually no risk to GNB Mortgage."

WHAT ABOUT NEW CONSTRUCTION?

Another option that many lenders don't consider with GRH loans is new construction. "Many institutions don't realize that new construction and GRH work very well together," Richard said. "Two factors that inhibit growth are the lack of affordable housing and lack of housing that people want to buy. New construction is a solution to this dilemma." There is a conditional commitment up front, with the guarantee issued upon completion of the home.

GRH products are not just a first-time homebuyer option, either. Richard said many applicants who've used the product come back when they've relocated or outgrown their homes. They re-apply for additional GRH financing, including financing for new construction.

Richard continued, "Many lenders think of GRH as a last option. Liz thinks of it first, because she understands the untapped market in so many of our rural communities. She's the type of lender that USDA needs – she realizes that not every customer can afford a \$100,000-\$150,000 home. She's really looking out for her customers and is committed to rural communities."



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EASY TO USE

It's easy for Liz to be proactive in her communities when she works with programs that are so user friendly. To apply for the GRH Section 502 product through the MPF Program, Liz said the process was simple. “We filled out a questionnaire, asking for information on our origination and servicing abilities. It was no big deal.”

Liz is also amazed at how quickly and easily the GRH process is. “There's a 24-hour turnaround on approval, and basically three documents that have to be signed. The appraisals are done electronically and we fax in the package – so it's no problem at all,” she said. The 502 product is designed to be easy for the lender, each file is reviewed on its own merit, and local loan approval officials have the authority to make loan decisions at the local level. GRH loans are affordable to borrowers, with up to 102 percent financing and a more affordable interest rate.

A FINAL WORD ON PARTNERSHIPS

Chuck Banks, USDA Rural Development state director, also appreciates the partnership between his agency, GNB Mortgage and FHLBank. “USDA Rural Development could not meet the home financing needs of rural Kansans without partners like GNB Mortgage and FHLBank,” he said. “These two partners are excellent examples of private sector relationships that are vital to helping USDA Rural Development achieve its mission of delivering programs that support increasing economic opportunities and enhancing the quality of life of rural Americans.”

Liz finds the MPF Program has really helped her business and her bottom line. With the steady income stream from her monthly Servicing income and Credit Enhancement Fee income, competitive pricing, and now with the recent addition of the GRH Section 502 product, MPF remains her investor of choice for GNB's mortgage business. For Liz, using the MPF Program just makes sense.

For more information on how your institution can take advantage of the GRH Section 502 product through our MPF Program, please contact your account manager or call the MPF department at 877.571.8171.

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