



MPF TRADITIONAL: LOW LOAN BALANCE PRICING (A WALKTHROUGH)

May 19 | 10 a.m. CT

To maximize your ability to hear the webinar, we're muting all participants. Please keep your line muted.

WHAT IS LOW LOAN BALANCE PRICING?

- Provides stronger premiums on loans with smaller loan amounts, generating stronger execution for members.
 - Allows the member to provide a closer to market rate
 - Encourages smaller loans to be made and sold into the secondary market



LOW LOAN BALANCE PRICING

Processing a mortgage involves costs, and most of these don't change because of the loan amount. If we assume \$1,000 in costs to complete a single mortgage, below is what you may experience.

Loan Amount	Rate	Price	Premium	Net Premium (minus \$1000)
\$125,000	5%	100.407	\$508.75	(\$491.25)
\$500,000	5%	100.407	\$2,035.00	\$1,035.00

This usually leads members to need to:

- Charge the borrowers a higher rate
- Charge the borrowers higher costs
- Lose money on the loan
- Keep the loan in house with a portfolio product



LOW LOAN BALANCE PRICING

What if you could offer a comparable rate to your borrowers, not increase your charges AND cover the cost of the loan?

Loan Amount	Rate	Price	Premium	Net Premium (minus \$1000)
\$125,000	5%	101.607	\$2,008.75	\$1,008.75
\$500,000	5%	100.407	\$2,035.00	\$1,035.00

Low Loan Balance Pricing options are active at this time.

15 Year Product
\$175K Max Loan Size

20 Year Product
\$175K Max Loan Size

30 Year Product
\$125K Max Loan Size
\$175K Max Loan Size
\$225K Max Loan Size



IS LOW LOAN BALANCE PRICING REALLY BETTER?

Example:

- 30-year loan pricing (as of 4/28/23)
- Rate: 6.5% Lock Term: 30 Days
 - Base Pricing 101.234
 - \$125K Max 102.008
 - \$175K Max 101.818
 - \$225K Max 101.645
- **As much as 77 basis points stronger pricing is available**



WHY OFFER LOW LOAN BALANCE PRICING?

- Smaller loans tend to repay at slower rates than larger loans.
 - Less rate sensitive
 - Takes a larger rate move to justify a refinance
- Slower prepayment rates lead to a higher yield on the asset over its life making these loans attractive for investors.



WHAT DO I DO TO ACTIVATE THIS OPTION?

- Nothing. There is no special Master Commitment (MC) or agreement to be signed.
- Utilizing low loan balance is built into the existing rate sheet structure and can be used immediately by all members with active MCs.



HOW DOES IT WORK?



THINGS TO KEEP IN MIND

- Low loan balance Delivery Commitments (DCs) are amount sensitive.
 - You cannot sell a \$130,000 into a 30FX \$125K Max DC.
 - The loan amount is a hard cap
 - Bottomless floor: You can sell any loan amount below \$125,000 into this DC.
- If you incorrectly lock a DC, it cannot be changed.
 - You could substitute another loan in its place
 - You would need to reduce to zero and would be assessed any pair off fee as applicable
- Please review our Financial Intelligence article on the steps to locking a low loan balance DC and the importance of the subproduct field.



QUESTIONS



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