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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

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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

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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

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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**

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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 it's life making these loans attractive for investors.

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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.

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HOW DOES IT WORK?

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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.

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QUESTIONS



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