FINANCIAL INTELLIGENCE from FHLBank Topeka

Match Made In Homeownership

FHLBank HSP Grants and the MPF® Program

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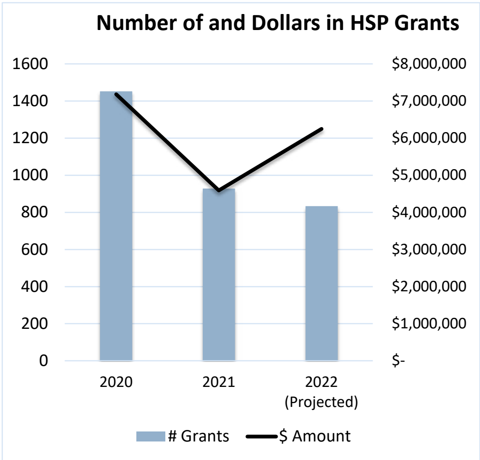
You are most likely aware of the Mortgage Partnership Finance® (MPF) Program and its availability to you as a member of FHLBank Topeka for delivering eligible loans into the secondary market.

You may also be aware of our Homeownership Set-aside Program (HSP) which provides down payment, closing cost and repair assistance for first-time homebuyers. What you may not be aware of is how well these two programs can work together.

HSP grants provide down payment assistance through a forgivable grant with a 5-year retention period. This means that if the borrowers stay in the home and carry the loan for five years, they do not need to pay back the grant. These funds can be used in a variety of ways to assist in the closing of a home loan and can be used in conjunction with other assistance programs available in your markets.

This grant program is great for new homebuyers just starting out or individuals adjusting to a new life situation in need of assistance. In either case, HSP grants can help make someone's American dream a reality. While the main purpose of this article is to address how well HSP grants work in conjunction with the MPF Program, the two programs don't have to be used together. HSP grants are eligible to be used with a variety of investors and even on loans you wish to hold in your own portfolio.

As you can see from the graph below, the usage and availability of grant funds has fluctuated in recent years. We showed a decline in funds available from 2020 to 2021 of more than $2 million, which decreased the available grants as well. The projections for 2022 show a strong increase in available funds, near the figures for 2020.



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Chris has been in the banking industry for more than 20 years. He has a bachelor's degree from Emporia State University. Contact him today.

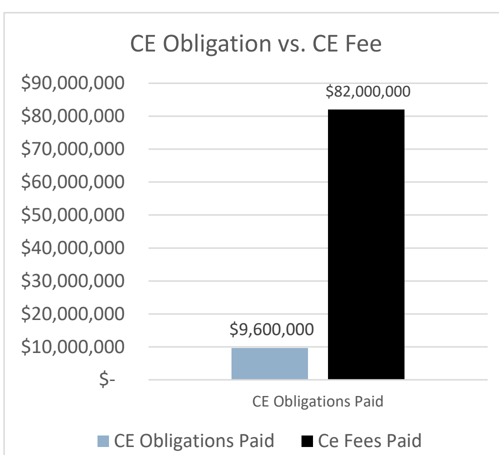
However, we have increased the maximum grant allowance in 2022 from $5,000 to $7,500 which is why you see a decline in the projected total number of grants provided.

The MPF Program allows our members the ability to deliver long-term fixed rate financing to your customers and avoid the interest rate risk associated with holding these loans in portfolio. The MPF Program gives every institution the ability to offer competitive fixed rate loan products no matter the size of your institution or the volume of home loan business you do.

We believe you are the expert on your borrowers; meaning, we don't need to add fees to the loan upfront before your customer makes their first payment. Instead, we create an off-balance sheet risk carried by the member against the loans sold under the MPF Program.

For holding this risk, you are paid an ongoing income stream in addition to the premium at the time of sale and the service-released premium or servicing fee income.

As you can see from the graph below, the reward compared to the risk has been quite substantial. Since 2000, members have received over $82 million in CE fee income while only paying out roughly $9.6 million in their share of risk (CE Obligation).



While these two products are useful individually, when you combine them you are able to take advantage of additional benefits.

LTV and TLTV

Normally with the MPF Program, the maximum LTV or TLTV is 95% but when you utilize the HSP, we allow the LTV to go up to 100% and the TLTV to 105%. This means you can offer loans with little to no down payment to qualified borrowers similar to government programs, but you can underwrite to conventional loan standards and follow most conventional loan documentation requirements.

Property Type	Max LTV *without* HSP Grant	Max TLTV *without* HSP Grant
1-unit Primary Residence	95%	95%
	Max LTV *with* HSP Grant	Max TLTV *with* HSP Grant
	100%	105%

Long-term fixed rates

Many of you have used HSP grants for loans you hold in your portfolio. In doing so, you most likely closed them as adjustable-rate mortgages (ARMs). That is understandable as it would allow you to avoid interest rate risk. By using the grant and selling the loan into the MPF Program, you can then offer up to 30-year fixed-rate financing while avoiding any interest rate risk.

The delivery process for loans using an HSP grant is essentially the same with only three adjustments to your normal procedures.

1. Under the First Time Buyer section you would mark "Y" for yes.
2. Under Loan Features you would mark the loan is using FHLB AHP
3. For loans where the LTV/TLTV exceeds 95%.

Complete the loan presentment as normal

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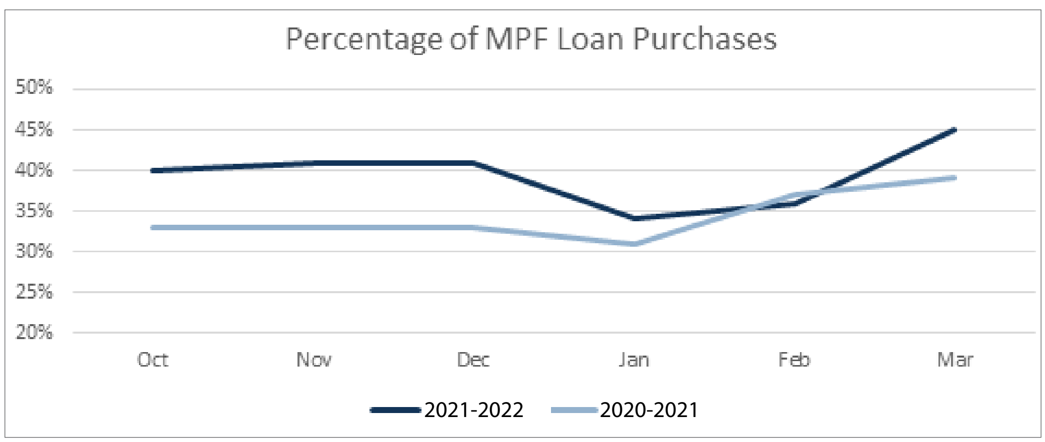
but you will receive an error for the LTV/TLTV above 95%. You will need to contact the MPF Service Center so they can manually complete the presentment for you. NOTE: It may require you to change your LTV/TLTV to 95% to initially complete the presentment. The Service Center can correct this during their manual input.

Competitive advantage
The ability to eliminate a down payment for your borrowers can be a major benefit in today's purchase market. When several offers are on the table for a home sale, the one with the most attractive circumstances usually wins (i.e., sellers not having to pay any closing costs). Real estate agents will be extremely interested to hear from you on how you can get more of their clients into homes.

As we have moved into a purchase market, your success is more dependent on relationships with realtors to generate activity. Any time you can get in front of realtors with products that can help them close deals, they will listen and remember.

As you can see from the graph below beginning in the fourth quarter of 2021, purchases have increased as a percentage of our activity. That trend should only continue to grow.

As the housing markets in most of our district become tighter and tighter, you need every advantage you can find. HSP grants and the MPF Program provide valuable tools you can use to generate loans and build new relationships in your lending areas.



Contact Chris today for solutions that work for you.

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