FHLBank Topeka

Mortgage Partnership Finance® (MPF®) Program

# Fulfilling your Basel III Requirements

Under Basel III capital rules, loan sales with limited recourse under the MPF Program are considered synthetic securitizations where Participating Financial Institutions (PFIs) have three options for calculating the risk-weighted assets relating to the credit enhancement obligation. How do you decide which option is best for you? Follow this process as authored by the staff of Wilary Winn, LLC (an independent company not affiliated with FHLBank Topeka) to help you make that decision.

## STEP 1 | Run your Master Commitment Detail Report from eMPF®

*www.empf.com*

**MPF® Program**
**Master Commitment Detail Report**

**Report Date: 04/01/2015** **Through March 2015**

**PFI:**

**Credit Enhanced Master Commitments for PFI**

**Master Commitments where Original PFI and CE Obligation Owner is PFI**

| MC# | MPF Product | Outstanding Balance of All Loans Sold | Remaining FLA | Remaining FLA as a % of Outstanding Balance | Remaining CE Obligation | Remaining CE Obligation as a % of Outstanding Balance | Outstanding Balance Excluding Loans 90+ Days Past-Due | Outstanding Balance of Loans 90+ Days Past-Due Amount (Count) |
|---|---|---|---|---|---|---|---|---|
| 1 | Original MPF® | $167,074 | $11,404 | 6.83 % | $2,620 | 1.57 % | $167,074 | $0 (0) |
| 2 | MPF® 125 | $608,245 | $9,305 | 1.53 % | $2,326 | 0.38 % | $608,245 | $0 (0) |

**Master Commitments where CE Obligation was Assumed from Others by PFI**

| MC# | MPF Product | Outstanding Balance of All Loans Sold | Remaining FLA | Remaining FLA as a % of Outstanding Balance | Remaining CE Obligation | Remaining CE Obligation as a % of Outstanding Balance | Outstanding Balance Excluding Loans 90+ Days Past-Due | Outstanding Balance of Loans 90+ Days Past-Due Amount (Count) |
|---|---|---|---|---|---|---|---|---|
| 3 | MPF® 125 | $233,019 | $12,343 | 5.30 % | $584 | 0.25 % | $233,019 | $0 (0) |

The report shown above is the Master Commitment (MC) Detail report available on eMPF® under the PFI Reports tab. Print your report and note that for purposes of completing your risk-based capital (RBC) calculation for your regulatory call report, only the top two sections on the report are applicable.

Essentially, section one is for MCs containing credit enhancement (CE) obligations related to MPF loans originated by you. Each MC is listed separately. Section two contains CE obligations by MC assumed by your institution, if applicable.

Four key fields from the top two sections are needed to complete the RBC calculation for each MC: 1 Outstanding Balance of all Loans sold; 2 Remaining CE Obligation; 3 Remaining FLA and 4 Outstanding Balance of Loans 90+ Days Past-Due Amount. The report is available each month on the first business day for balances ending the month prior.

*(continued on next page)*

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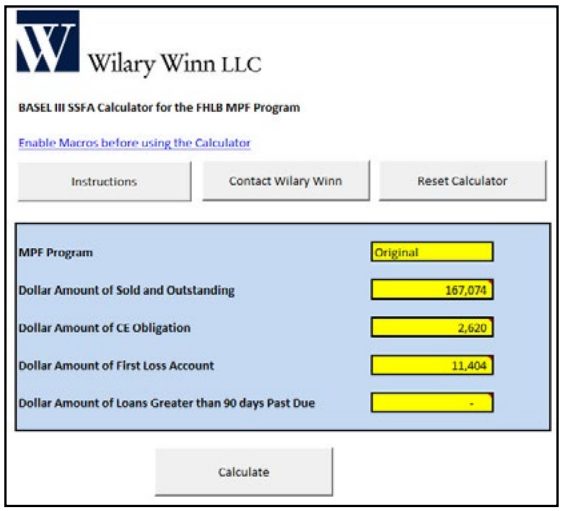
There is also an archived version of the report and a description of the components on the report. For RBC purposes, use the report with quarter-end data as of March 31, June 30, September 30 or December 31, as applicable.

## STEP 2 | Enter your data into the free Wilary Winn Basel III calculator




Go to *https://www.wilwinn.com/insights-and-resources.html* and download the MPF SSFA Calculator.

After selecting the appropriate MPF MC product type, e.g., Original, 100, 125, etc., follow the numbered data fields from the MC Detail description (fields 1-4 from page 1) and enter the data, one MC at a time, into the calculator's data entry page (pictured at left). Select the Calculate button and print the page for future reference. The system will automatically provide results for each of the three calculation options under Basel III for each MC entered: SSFA; Gross-up and CE times 12.5. **For an explanation of these three calculations and all applicable rules for the selection process, refer to the Additional Resources section on the next page for an important link.**

## STEP 3 | Compare your results

You are now ready for the final calculation selection process. The Choosing Your Swim Lane section on page 3 of this guide provides an analogy that explains how to determine the final amount(s) to enter on your regulatory call report. The highlighted figures below represent the lowest/best result to be considered for regulatory reporting, with the lowest Total amount yielding the final swim lane.

| SSFA Method | |
|---|---|
| **MC #** | SSFA |
| **1** | **$5,526** |
| **2** | **$29,078** |
| **3** | **$3,586** |
| **4** | **$1,540,127** |
| **5** | **$233,710** |
| **Total** | **$1,812,027** |

| Gross-up Approach | | | |
|---|---|---|---|
| **MC #** | Gross-Up | CE * 12.5 | Lowest/Best Result |
| **1** | **$77,835** | **$32,753** | **$32,753** |
| **2** | **$299,470** | **$29,078** | **$29,078** |
| **3** | **$110,338** | **$7,297** | **$7,297** |
| **4** | **$1,416,140** | **$2,577,657** | **$1,416,140** |
| **5** | **$191,662** | **$404,279** | **$191,662** |
| **Total** | | | **$1,676,930** |

For this example, the lowest/best result considering all five MCs is the Gross-up swim lane.

## STEP 4 | Choosing your swim lane

As referenced in Wilary Winn's Accounting and Regulatory Guidance manual, a PFI must choose between the SSFA method and the Gross-up approach when completing the call report schedule. Think of it as having two swim lanes that you cannot cross on your way to the finish line. *But which swim lane do you want and how do you choose that ahead of time?*

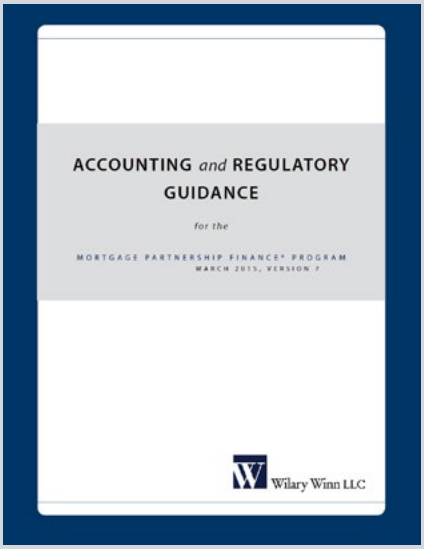
The following process will help you make your selection:

1. Enter the four data components from the eMPF Master Commitment Detail Report in the Wilary Winn calculator (shown on page 2) for each applicable MC (one MC at a time).
2. For each MC, choose the lowest dollar amount between: (1) the SSFA calculated amount, or (2) the Gross-up calculated amount or by taking the CE amount multiplied by 12.5.
3. At any time, if the CE amount times 12.5 is lower than the Gross-up amount, you want to choose that lower amount.
4. After you complete this step for all MCs, sum the two columns of amounts and select the lowest total amount. That's your swim lane – either SSFA or Gross-up.

### STEP 5 | Enter your final amounts on the Call Report

Follow the call report completion explanation matrix below, noting that if your best lane was under the Gross-up approach yet you had some MCs where the CE times 12.5 was the lower amount, you havedifferent reporting instructions than if all masters were better solely under the Gross-up approach.

## ADDITIONAL RESOURCES




Go to *https://www.wilwinn.com/insights-and-resources.html* to reference the Accounting and Regulatory Guidance for the Mortgage Partnership Finance Program manual.

| MPF® Program Master Commitment(s) best reported under the following Basel III Regulation options: | | | | | |
|---|---|---|---|---|---|
| **Line 10** | Column A (RCON S495) | Column B (RCON S496) | Column Q (RCON S497) | Column T (RCON S498) | Column U (RCON S499) |
| SSFA | **Sum CE Obligation Amounts** and report the total on RC-R, Part II, Risk-Weighted Assets Line 10 Column A | For CE Obligation Amounts that are to be risk-weighted under the SSFA method, **report the total of the CE Obligation Amounts** in Column B. | NA | For CE Obligation Amounts that are to be risk-weighted under the SSFA method, **report the total calculated risk weighted assets** (not the total CE Obligation Amount) in Column T. | NA |
| Gross Up | **Sum CE Obligation Amounts** and report the total on RC-R, Part II, Risk-Weighted Assets Line 10 Column A | For CE Obligation Amounts that are risk-weighted under the Gross-up approach, **report the total of the CE Obligation Amounts** in Column B. | NA | NA | For CE Obligation Amounts that are risk-weighted under the Gross-up approach, **report the total calculated risk-weighted assets** (not the total CE Obligation Amount) in Column U. |
| Best of Gross Up or CE * 12.5 | **Sum CE Obligation Amounts** and report the total on RC-R, Part II, Risk-Weighted Assets Line 10 Column A | For CE Obligation Amounts that are risk-weighted under the Gross-up approach, **report the total of the CE Obligation Amounts** in Column B. | For CE Obligation Amounts that are to be reported by multiplying by 12.5, **report the total of the CE Obligation Amounts** in Column Q. | NA | For CE Obligation Amounts that are risk-weighted under the Gross-up approach, **report the total calculated risk-weighted assets** (not the total CE Obligation Amount) in Column U. |
| CE * 12.5 | **Sum CE Obligation Amounts** and report the total on RC-R, Part II, Risk-Weighted Assets Line 10 Column A | NA | For CE Obligation Amounts that are to be reported by multiplying by 12.5, **report the total of the CE Obligation Amounts** in Column Q. | NA | NA |

# Learn More

If you have any questions about this process, please contact us. For a full list of other helpful guides about the MPF Program, visit our website at *www.fhlbtopeka.com/mpf*, select Operational Guides tab.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