

CHRIS ENDICOTT
MPF Program
Account Manager
785.478.8164
chris.endicott@fhlbtopeka.com

Low Loan Balance Pricing

A Winning Option for All

Processing a mortgage involves costs, and most of those costs don't change because of the loan amount. It takes just as much time to underwrite, process and close a $125,000 home loan as it does a $500,000 loan. However, you earn substantially less as the lender.

If it costs your institution $1,000 to complete a single mortgage loan, the following scenario could happen quite often.

In the extreme example below (Chart 1), you would lose money to make the $125,000 loan. This can force you to charge smaller loan borrowers higher rates or fees to complete their loans. Alternatively, you may choose to make an in-house loan, which would usually require a shorter term or an adjustable-rate mortgage.

What if you could offer a comparable rate to your borrowers, keep your charges the same and cover the cost of the loan? Now you can thanks to the new MPF® Program low loan balance pricing option.

With this enhancement, pricing is broken down into tiers based on the loan size with smaller loans providing a better premium in rate-to-rate comparisons.

FHLBank Topeka can provide the higher premium because smaller loans tend to prepay slower than larger loans, which results in slower premium amortization along with a relatively higher yield. This pricing differential may allow the lender to generate enough premium so smaller loans make sense for both you and your borrowers.

For example, Chart 2 shows what would happen if we used low loan balance pricing with the earlier example.

Chart 1

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

Chart 2

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

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Chris has been at FHLBank Topeka since 2005 and previously worked for a community bank. He is a graduate of Emporia State University. Contact him today.

With the low loan balance pricing method, the premium for the $125,000 loan now makes sense for your institution and allows you to maintain the same rates and fees for your borrowers on smaller loan sizes.

How to Take Advantage of Low Loan Balance Pricing

When you log into the eMPF® website, low loan balance pricing is now available for your use.

We have activated five total sub-product options across the MPF Traditional Product:

15 Year

- $175K Max Loan Size

20 Year

- $175K Max Loan Size

30 Year

- $125K Max Loan Size
- $175K Max Loan Size
- $225K Max Loan Size

The process to lock a low loan balance delivery commitment is nearly identical with the addition of just one step:

1. Select Delivery Commitment under the Transactions tab on eMPF.
2. Fill in the required information as you do now
3. **NEW! Also select the correct sub-product loan size pricing grid from the drop-down menu**
4. Select Submit
    a. NOTE: Please review and verify the pricing is what you expected to see from the low loan balance grid.
5. Select Confirm

Please Note: The pricing grid spreads are subject to change at any time. You are not guaranteed a premium/agent fee until a delivery commitment is locked.

If you have any questions about this new offering, get in touch.

Contact Chris today for solutions that work for you.

☎ 785.478.8164 ✉ chris.endicott@fhlbtopeka.com fhlbtopeka.com/intelligence

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