# Mortgage Partnership Finance® Program

## OVERVIEW

The Mortgage Partnership Finance® Program (MPF®) provides access to the secondary market for FHLB members that are approved Participating Financial Institutions (PFIs).[14] The Federal Home Loan Bank of Chicago launched the MPF Program in 1997 to provide an outlet (other than Fannie Mae and Freddie Mac) for PFIs to sell fixed-rate mortgage loans. Today, nine of the 11 FHLBs purchase conventional and government loans from their PFIs through the MPF Program. (The FHLB of Cincinnati and the FHLB of Indianapolis purchase loans from their members through the Mortgage Purchase Program). The large majority of financial institutions participating in this Program are small banks or thrifts and credit unions with assets of less than $400 million. The MPF Program provides multiple product offerings and execution options for individual PFIs to meet their secondary market needs.

The MPF umbrella includes a variety of fixed-rate conventional and government secondary market mortgage products. These products are categorized in two groups: MPF credit enhanced products, in which a PFI shares the credit risk with the FHLB, and non-credit enhanced products, in which credit risk is held by or transferred to a third-party entity.

PFIs can choose from a variety of MPF products, each with a unique set of product elements. These elements include:

- product type (conventional, government, or jumbo);
- shared credit risk structure versus no credit risk retention;
- amount of credit risk allocation or amount of credit enhancement fees on loans where some credit risk is retained;
- loan delivery options (loans committed before or after closing); and/or
- servicing options (retained in-house, retained with sub-servicer, or released); and
- servicing remittance type (Actual/Actual, Single Remittance Actual/Actual, Scheduled/Scheduled).

**This Guide covers the following MPF secondary market products:**

### Credit Enhanced Products

**MPF Original:** Secondary market fixed-rate conventional mortgage product purchased by the FHLB and held on its balance sheet. Credit risk is shared between the FHLB and the PFI. For sharing in the credit risk, PFIs are paid a fixed monthly credit enhancement fee, typically 10 basis points. Credit enhancement fee income is not impacted by loan performance. Servicing released or retained options are available.

**MPF 125:** Secondary market fixed-rate conventional mortgage product purchased by the FHLB and held on its balance sheet. Credit risk is shared between the FHLB and the PFI. For sharing the risk, PFIs are paid between 6 basis points to 9 basis points credit enhancement fee monthly. Credit enhancement fee income is impacted by loan performance. Servicing released or retained options are available.

**MPF 35:** Secondary market fixed-rate conventional mortgage product purchased by an FHLB and held on its balance sheet. Credit risk is shared between the FHLB and the PFI. For sharing in the credit risk, PFIs are paid between 9 basis points to 12 basis points credit enhancement fee. Credit enhancement fee income is impacted by loan performance. Servicing released or retained options are available.

[14] The "Acquired Member Assets (AMA) Final Rule For Federal Home Loan Bank Investments" changes the definition of PFI to clarify that the PFI may be approved to sell AMA loans to an FHLB, but also could be approved (either in conjunction with or apart from its role as a seller of loans) to service those loans or provide a credit enhancement for them. https://www.fhfa.gov/SupervisionRegulation/Rules/Pages/Acquired-Member-Assets-Final-Rule.aspx

## Non-Credit Enhanced Products

**MPF Xtra:** Secondary market product that lets PFIs originate and sell closed standard Fannie Mae[15] fixed-rate products to the FHLB of Chicago, which pools and delivers them to Fannie Mae.

**MPF Direct:** Secondary market product that lets PFIs originate and sell jumbo loans with no credit risk retention with the FHLB of Chicago selling the loans to jumbo loan investor, Redwood Trust.

**MPF Government:** Secondary market product that helps PFIs to sell fixed-rate mortgage loans that are insured or guaranteed by U.S. government agencies to an FHLB of Chicago, which holds them in portfolio.

**MPF Government MBS:** Secondary market product that helps PFIs sell closed fixed-rate mortgage loans that are insured or guaranteed by U.S. government agencies to the FHLB of Chicago, which issues securities backed by pools of these mortgages that are sold to private investors; payments to investors are guaranteed by Ginnie Mae.

## FHLB MPF Product Offerings

Nine out of 11 FHLBs offer MPF Products to their PFIs: Atlanta, Boston, Chicago, Dallas, Des Moines, New York, Pittsburgh, San Francisco, and Topeka. (Indianapolis and Cincinnati are not a part of the MPF Program; they offer the Mortgage Purchase Program). The table on the following page provides information about which products are offered by each FHLB. Product details and availability may change over time. Refer to the MPF Program's website for most up-to-date information (https://www.fhlbmpf.com/Pages/default.aspx).

## Bank Eligibility and Application Process

To be eligible to participate in the MPF Program, an FHLB member must be a PFI of an FHLB that offers the MPF Program and have experience in originating and servicing mortgage loans. Applicants must also have the ability to report mortgage loan activity under either an actual/actual (single or multi) or a scheduled/scheduled remittance structure.[16]

For depository institutions, there is no leverage capital requirement (i.e., the banks' debt to asset ratio is not considered in determining eligibility), but the PFI must meet the applicable risk-based capital requirements identified in the Basel III Accord.[17]

### CREDIT ENHANCED PRODUCTS:

Secondary market fixed-rate conventional mortgage product purchased by the FHLB and held on its balance sheet. Credit risk is shared between the FHLB and the PFI. Servicing released or retained options are available.

**MPF Original:** PFIs are paid a fixed monthly credit enhancement fee, typically 10 basis points. Credit enhancement fee income is not impacted by loan performance.

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**MPF 35:** PFIs are paid between 9 basis points to 12 basis points credit enhancement fee. Credit enhancement fee income is impacted by loan performance.

### NON-CREDIT ENHANCED PRODUCTS:

Secondary market product.

**MPF Xtra:** PFIs originate and sell closed standard Fannie Mae fixed-rate products to the FHLB of Chicago, which pools and delivers them to Fannie Mae.

**MPF Direct:** PFIs originate and sell jumbo loans with no credit risk retention with the FHLB of Chicago selling the loans to Redwood Trust.

**MPF Government:** PFIs sell fixed-rate mort gage loans that are insured or guaranteed by U.S. government agencies to an FHLB, which holds them in portfolio.

**MPF Government MBS:** PFIs sell closed fixed-rate mortgage loans that are insured or guaranteed by U.S. government agencies to the FHLB of Chicago, which issues securities backed by pools of these mortgages that are sold to private investors and guaranteed by Ginnie Mae.

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[15] See *Affordable Mortgage Lending Guide, Part I: Federal Agencies and Government Sponsored Enterprises* (Washington, DC: Federal Deposit Insurance Corporation, 2016), https://fdic.gov/mortgagelending for a complete list of loan products.

[16] Actual/actual is a remittance type that requires the servicer to remit only the actual amount of principal and interest collected from the borrower. By contrast, scheduled/scheduled remittances require the servicer to remit the scheduled principal and interest due whether or not payments are collected from borrowers.

[17] See http://www.federalreserve.gov/bankinforeg/basel/USImplementation.htm.

| REGION | CREDIT ENHANCED | | | NON-CREDIT ENHANCED | | | |
|---|---|---|---|---|---|---|---|
| | MPF Original | MPF 125 | MPF 35 | MPF Xtra | MPF Direct | MPF Government | MPF Government MBS |
| Atlanta | | | | ● | ● | | ● |
| Boston | ● | | ● | ● | ● | ● | ● |
| Chicago | ● | ● | ● | ● | ● | ● | ● |
| Dallas | ● | ● | ● | ● | | | |
| Des Moines | ● | ● | ● | ● | ● | ● | ● |
| New York | ● | ● | | | | | |
| Pittsburgh | ● | | ● | ● | ● | ● | |
| San Francisco | ● | | | ● | ● | ● | ● |
| Topeka | ● | ● | | ● | | ● | ● |

PFIs must contact their FHLB to request an application to participate in the MPF Program. An applicant's latest audited financial statements may be requested as part of the application process.

## Loan Delivery

Loans are delivered according to the terms of a "master commitment," which is a contract between the participating FHLB and the PFI that provides the terms under which the PFI will deliver mortgages to the FHLB. Master commitments establish the number and dollar amount of mortgages that the PFI estimates it will deliver to the FHLB over a specified time period, the type of remittance used when servicing the loans, and whether the PFI intends to retain or sell the servicing rights. On credit-enhanced products, the master commitment also defines the credit risk allocation between the FHLB and the PFI.

The eMPF is a secure transactional website that PFIs use to execute delivery commitments, obtain rate and fee information, and deliver loans (see Resources).

## Servicing Options

Three servicing options are available under the MPF Program:

**Servicing retained in-house:** The servicing retained in-house option lets PFIs hold the servicing asset and retain ownership over the servicing rights of their MPF loans. PFIs hold full responsibility for investor and regulatory servicing compliance on the loans. Servicing the loans in-house helps PFIs to retain their customer relationships, as well as the value of the servicing asset and the servicing fee income earned.

**Servicing retained sub-servicing:** The servicing retained sub-servicing option lets the PFI retain ownership and control of the servicing asset and receive some servicing fee income while contracting with an approved sub-servicer to carry out specific servicing duties. The fees paid to the sub-servicer will vary depending on the level of services agreed to by both parties. Sub-servicing lets PFIs retain the value of the servicing asset, including the net fee income beyond that paid to the sub-servicer. Although the sub-servicer will be responsible for carrying out some or all of the required servicing duties, as the owner of the servicing asset, the PFIs will still hold full responsibility for investor and regulatory servicing compliance on the loans.

**Servicing released:** The servicing released option lets the PFI sell the servicing rights to the loans originated under the MPF Program concurrent to the sale of the mortgage loan. The servicing released option relieves PFIs from all servicing ownership rights and responsibilities.

### Training

MPF University is a free education website dedicated to providing instructions and guidance on all aspects of the MPF Program. In addition, the MPF University offers frequent training webinars on a variety of topics including underwriting, loan delivery, and loan delinquency management. The FHLB of Chicago usually conducts this training (see Resources).

### Quality Control and Reporting

**In-house quality control program:** Each PFI must maintain a quality control program for the mortgages it originates and services under the MPF Program. The PFI's program must ensure that mortgages conform to the MPF Program's policies, are of a quality acceptable to the FHLB and other institutional investors, and comply with insurer and guarantor requirements. The quality control process must be independent of the PFI's mortgage origination, processing, and underwriting processes.

**MPF staff quality control file reviews:** The FHLB staff will select a sample of delivered loans and perform post-funding quality control reviews to verify that each loan selected meets the definition of investment quality and conforms to the FHLB's guidelines, policies, and PFI representations and warranties[18] as described in the PFI Agreement.

After the quality control review is complete, the PFI is notified in writing of those mortgages found to be deficient. The FHLB, at its sole discretion, may require purchase or repurchase by the PFI of a deficient mortgage in accordance with the MPF Guides (see Resources).

[18] Representations and warranties are claims that the seller makes in a purchase and sales agreement about the nature of the loan and which in turn form the basis for due diligence. If lenders are found to violate representations and warranties, secondary market entities may force the lender to repurchase the loan or may refuse insurance or guarantee claims.

### Potential Benefits

- The Mortgage Partnership Finance Program provides PFIs with the ability to sell conventional and/or government mortgage loans and transfer liquidity risk, interest-rate risk, and prepayment risk to the FHLBs.
- The MPF Program helps PFIs to share (credit enhanced products) or transfer the credit risk (non-credit enhanced products) of the loans with/to their FHLB.
- For certain products, the PFI can either retain or sell servicing rights.

### Potential Challenges

- On credit-enhanced products, the PFI retains the representations and warranties' risk for origination.

## RESOURCES

*Product parameters are subject to change. See individual FHLB summaries to contact your Federal Home Loan Bank.*

**Mortgage Partnership Finance Program**
https://www.fhlbmpf.com/Pages/default.aspx

**eMPF Website** (ID/Password required)
https://www.fhlb-mpf.com/eMPF/Logon.aspx?ReturnUrl=/empf

**eMPF PFI User Manual**
https://www.fhlbmpf.com/Shared%20Documents/eMPFUserManual.pdf

**MPF Program Guides** (you will need to provide contact information)
https://www.fhlbmpf.com

**MPF Webinar Education Calendar**
https://www.fhlbmpf.com/EDUCATION/Pages/MPF-Webinar-Calendar.aspx

**MPF University**
https://pemadmin.elliemae.cloud/fhlbc/