MPF 35

The MPF 35 is a secondary market shared credit risk, fixed-rate conventional mortgage product purchased by the FHLB where the FHLB share of losses is fixed at 35 basis points. Depending upon the size of the loans, a credit enhancement fee of 9 basis points to 12 basis points is paid monthly to the PFI.

BACKGROUND AND PURPOSE

MPF 35 offers PFIs the ability to originate and sell closed, fixed-rate, residential mortgage loans and receive monthly credit enhancement fee income for sharing the credit risk with the FHLB. Participating FHLBs purchase MPF 35 loans and hold them on balance sheet. The FHLB manages the liquidity, interest rate, and prepayment risks of the loans while the credit risk is shared between the PFI and the FHLB.

The risk-sharing structure is multi-layered. The number "35" in the product name refers to the total amount of basis points set aside for losses by the FHLB.

After accounting for any principal the borrower has paid down on the loan, loan losses are paid first from any existing private mortgage insurance policy on the property. Any remaining losses are divided between the FHLB and the PFI.

PFIs are paid a credit enhancement fee on the outstanding principal balance of the master commitment. However, when loan losses occur, credit enhancement fees are redirected to the FHLB until the first loss account is brought back to the maximum amount of 35 basis points. Servicing released or retained options are available on the MPF 35. The illustration below shows the distribution of income and loss for PFIs on the MPF 35 product.

MPF 35 RISK-SHARING STRUCTURE

INCOME	
PFI credit enhancement income	9 to 12 basis points fee paid monthly on outstanding principal balance
Servicing income	25 basis points servicing fee (if servicing retained)
LOSSES	
	Borrower principal paid
	Private mortgage insurance
First layer paid by FHLB	First loss account is 35 basis points of all loans sold under the master commitment
Second layer paid by PFI	PFI credit enhancement obligation established in the master commitment; less 35 basis points (including first loss account)
Remaining losses paid by FHLB	FHLB (remainder of losses)

Credit risk-sharing structure: The following allocation of loss applies after borrower equity and any applicable mortgage insurance on loans with an original loan-to-value ratio greater than 80 percent:

FHLB first loss account: The first loss account is the first layer of loss protection for all MPF 35 loans. The amount of the first loss account is typically equal to 35 basis points of the funded amount of all the loans in a master commitment. The FHLB will absorb realized losses for mortgages in the master commitment up to the balance of the first loss account.

PFI credit enhancement obligation: The credit enhancement obligation is the second layer of loss protection for all MPF 35 loans. Only losses up to the credit enhancement obligation are paid by the PFI until the first loss account is made whole. The credit enhancement obligation is calculated in an amount needed to bring the total loss reserves for that master commitment to an Acquired Member Assets (AMA) investment grade, minus the total first loss account.

Over time, the credit enhancement obligation is recalculated. If the newly calculated credit enhancement obligation is lower than the remaining obligation, the PFI's credit enhancement obligation is reset to the new lower level.

FHLB: Any losses that exceed the first loss account and the credit enhancement obligation under the MPF 35 product are absorbed by the FHLB.

Credit enhancement fees: 9 basis points (12 basis points for a master commitment over $15 million) are paid monthly on the outstanding principal balance of the master commitment. Credit enhancement fees are reduced to reflect performance of the loans by deducting an amount equivalent to the realized losses of the master commitment, up to the maximum of the first loss account.

Remittance Options: Actual/actual (remit only the actual amount of principal and interest collected from borrower), actual/actual single remittance, or scheduled/scheduled (remit the scheduled principal and interest due whether or not payments are collected from borrowers).

Servicing Options: Servicing retained or servicing released options. (See Servicing Options in Overview for a full description.)

Servicing Fee: 25 basis points paid monthly.

RESOURCES

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

MPF 35

https://www.fhlbmpf.com/PRODUCTS/Shared%20Documents/FHLBanks%20National%2035%20Term%20Sheet2016.pdf

POTENTIAL BENEFITS

MPF 35 provides PFIs with the ability to sell conventional loans and transfer liquidity, interest rate, and prepayment risk to the FHLBs.

MPF 35 lets PFIs share the credit risk of the loans with their FHLB.

The PFI receives a monthly credit enhancement fee income.

The PFI can either retain or sell servicing rights.

POTENTIAL CHALLENGES

PFI retains the representations and warranties' risk for origination.

Credit enhancement fee income is reduced when loan losses occur.