MPF Original

The MPF Original is a secondary market shared credit, fixed-rate conventional mortgage product purchased by the FHLB where the FHLB's share of losses begins at zero and builds to 4 basis points of the outstanding balance each year. A fixed credit enhancement fee of 10 basis points is usually paid monthly to the PFI.

BACKGROUND AND PURPOSE

MPF Original offers PFIs the ability to originate and sell closed, fixed-rate, residential mortgage loans and receive monthly credit enhancement fee income. Participating FHLBs purchase MPF Original 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. After accounting for any principal the borrower has paid down on the loan, loan losses are paid first from any existing mortgage insurance policy on the property. Any remaining losses are divided between the FHLB and the PFI. The first layer of losses is absorbed by the FHLBs' "first loss account."

PFIs are paid a fixed monthly credit enhancement fee of 10 basis points. Credit enhancement fee income is fixed and is not impacted by loan losses. Servicing released or retained options are available. The illustration below shows the distribution of income and loss for PFIs on the MPF Original product.

MPF ORIGINAL RISK-SHARING STRUCTURE

INCOME	
PFI credit enhancement income	10 basis points fixed fee 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 starts at zero; builds at 4 basis points each year, which is calculated and accrued monthly on the outstanding principal balance
Second layer paid by PFI	PFI credit enhancement obligation established in the master commitment
Remaining losses paid by FHLB	FHLB (remainder of losses)

Credit risk-sharing structure: Losses over and above those covered by the principal paid by the borrower and any applicable mortgage insurance on loans with an original loan-to-value ratio greater than 80 percent are allocated as follows:

FHLB first loss account: The first loss account is the first layer of loss protection for all MPF Original loans. The first loss account starts at zero and builds over time. It is calculated and accrued monthly at a rate of 4 basis points on the outstanding principal balance of the loans in a master commitment. The FHLB will absorb realized losses on mortgages covered 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 Original loans. Only losses up to the credit enhancement obligation are paid by the PFI to bring the total loss reserves to an Acquired Member Assets (AMA) investment grade level. The credit enhancement obligation is recalculated over time. 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 Original product are absorbed by the FHLB.

Credit enhancement fees: Fixed 10 basis points paid monthly to the PFI on the outstanding principal balance in the master commitment.

Remittance Options: Actual/actual, actual/actual single remittance, or scheduled/scheduled.

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

Servicing Fee: Set fee of 25 basis points paid monthly to owner of servicing rights.

RESOURCES

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

MPF Original

https://www.fhlbmpf.com/PRODUCTS/Shared%20Documents/MPFOriginal_082715.pdf

POTENTIAL BENEFITS

MPF Original provides the highest potential income of the three credit-enhanced MPF products.

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

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

The PFI receives a fixed monthly credit enhancement fee.

The PFI can either retain or sell servicing rights.

POTENTIAL CHALLENGES

The PFI retains the representations and warranties' risk for origination.

Early defaults are more likely absorbed by the PFI when compared with other credit enhanced products.

A COMMUNITY BANKER CONVERSATION

Using the FHLB of Pittsburgh's Mortgage Partnership Finance® Program

The FDIC talked with community bankers about their participation in various Federal Home Loan Bank programs. The following is an excerpt from one of these discussions.

A bank representative said that her bank has used the FHLB of Pittsburgh's Mortgage Partnership Finance Program (MPF) for approximately 14 years. "Because we were already a Freddie Mac seller/servicer[20] we only needed training in the areas of accounting, how to handle delinquencies, and guidelines specific to MPF underwriting. We were up and running with the program in just a couple of months, if that."

The bank uses MPF Original, which is a secondary market fixed-rate conventional mortgage product purchased by the FHLB and held on its balance sheet. The credit risk is shared between the FHLB and the bank. For sharing the risk, the bank is paid a fixed monthly credit enhancement fee of 10 basis points. The bank retains the servicing in-house on these loans and reports its mortgage loan activity under the actual/actual remittance structure.

The bank received one-on-one training from the staff at the FHLB of Pittsburgh for underwriting, servicing, and accounting. When asked about what a bank interested in MPF should know about the program, the representative said that a new user to MPF should have little or no issues if they are familiar with secondary market lending. MPF is much easier and less complex than Fannie Mae or Freddie Mac. However, if a bank has no experience with secondary market lending, it would have to bring staff up to speed on the underwriting guidelines. She said that a loan origination system is a must and the availability of an automated underwriting system is required. "We outsource the post-closing quality control auditing of our MPF loans. There is a pre-closing quality control checklist that is required on 10 percent of our MPF loans that adds an additional step to the process but it is not difficult to do. We have a 'first loss position' with MPF so we retain some of the credit risk on the loans. There is also a stock purchase requirement that could pose an issue for some."[21]

The representative stated that because there are no loan level pricing adjustments, the MPF Program makes it easier to quote pricing and the pricing is competitive. "We are able to contact our local Federal Home Loan Bank for guidance when necessary for underwriting questions." She went on to say that the underwriting is very similar to Freddie Mac's underwriting. The bank submits each loan through Freddie Mac's automated underwriting system, Loan Prospector®, which provides a "feedback message" with specific guidelines. The local FHLB staff provides underwriting support when needed.

Participation requirements may very. See individual FHLB summaries for contact information.

[20] 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 more information on Freddie Mac and its products and requirements.

[21] Not all FHLBs require an additional stock purchase for participation. See individual FHLB summaries to contact your Federal Home Loan Bank for more information.