

## Mortgage Purchase Program

### OVERVIEW

The FHLB of Cincinnati and the FHLB of Indianapolis each offer a Mortgage Purchase Program (MPP). The program provides an alternative to the traditional secondary mortgage market.

By selling mortgage loans to MPP, members can increase their balance sheet liquidity and minimize the risks associated with holding fixed-rate mortgages in portfolio. The FHLB holds the liquidity, interest rate, and prepayment risks of the loans it purchases from a member. All mortgage loans purchased from members through the MPP are maintained on the FHLB's balance sheet.

The FHLB mitigates its program credit risk exposure through underwriting and pool composition requirements and through the establishment of the Lender Risk Account (LRA) credit enhancement, which is a reserve account for potential loan losses. Along with a competitive cash price, the purchase transaction on conventional loans include a set aside of funds into the LRA. LRA funds act as a first loss account against possible loan losses. LRA balances not used to offset losses are returned to the member in accordance with a predetermined schedule. When loans perform as expected, member banks receive additional future cash flow.

### A COMMUNITY BANKER CONVERSATION

#### Using the FHLB of Indianapolis' Mortgage Purchase 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 banker from the Midwest discussed participating in the Federal Home Loan Bank of Indianapolis' Mortgage Purchase Program (MPP). According to the bank's representative, the bank's MPP volume began to increase significantly in 2008. As interest rates dropped, the bank, which has seven branches, saw an opportunity with the MPP program to reduce its long-term interest rate risk on some of its portfolio loans and simultaneously help its customers refinance into lower rates. Since that time, the MPP program has helped the bank reach a wider customer base, including more low- and moderate-income borrowers with both purchase and refinance transactions, averaging 150 loans per year.

In addition to reducing the interest rate risk and providing the bank with the ability to sell more loans into the secondary market, the MPP also provides substantial fee income for the bank, including up-front fees of one to two percentage points of the total loan amount delivered, as well as 25 basis points in monthly servicing fees. A portion of the up-front fees is paid into a Lender Risk Account (LRA), which is a reserve account for potential loan losses held by the FHLB of Indianapolis. Over time, if the loans perform as expected, funds from the LRA are distributed back to the bank, thereby rewarding the delivery of high-quality loans with an additional future income stream.

## Products

**Conventional:** Secondary market, fixed-rate, fully amortizing loans of conforming balances.

### Servicing Options

Members have the option of retaining the servicing or selling the servicing rights to the MPP approved Servicing Released Servicer.

### Remittance Options

When retaining the servicing, members may choose to remit principal and interest payments on an Actual/Actual or Scheduled/Scheduled basis.

### Loan Commitments

Members sell loans to the FHLB through Mandatory Delivery Commitments. Pair off fees may apply if commitments cannot be delivered.

**FHA:** Secondary market, fixed rate, fully amortizing loans of conforming balances that are fully insured by Federal Housing Administration.

## MPP Participation Eligibility

Approved members of the FHLB of Cincinnati and the FHLB of Indianapolis are eligible to participate in their FHLB's Mortgage Purchase Program.

Applicants are required to be in a sound financial condition and have the ability to originate and service (if servicing retained) to secondary market standards. Approved members are required to maintain a quality control program that conforms to secondary market standards.

## Training

Upon approval of participation into the program, FHLBs provide training for use on the Loan Acquisition System, the MPP intranet-based selling platform. MPP conferences and additional training opportunities are offered.

## RESOURCES

### FHLB Indianapolis

**Website:** <https://www.fhlbi.com>

**Email:** [memberservices@fhlbi.com](mailto:memberservices@fhlbi.com)

**Phone:** 800-442-2568

### FHLB Cincinnati

**Website:** <https://www.fhlbcin.com>

**Email:** [info@fhlbcin.com](mailto:info@fhlbcin.com)

**Phone:** 866-677-3452

## POTENTIAL BENEFITS

Participation in the Mortgage Purchase Program provides members 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 program allows members to share the credit risk with its Federal Home Loan Bank.

The member can either retain or sell servicing rights.

## POTENTIAL CHALLENGES

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