

Non-Credit Enhanced Products

OVERVIEW

Non-credit enhanced Mortgage Partnership Finance Program (MPF) products help PFIs deliver Fannie Mae eligible loans and other government loans²² – such as loans insured or guaranteed by the Federal Housing Administration (FHA), the U.S. Department of Veterans Affairs (VA), the U.S. Department of Agriculture’s Rural Development (RD), the U.S. Department of Housing and Urban Development (HUD) Section 184 program, and HUD jumbo loans – into the secondary market. Unlike credit enhanced products that require PFIs to retain a portion of the credit risk, non-credit enhanced products are more similar in nature to a traditional secondary market sale. They let PFIs sell conventional and government loan products to their FHLB, but standard representations and warranties²³ still apply. This can be an attractive delivery option for those lenders interested in originating Fannie Mae or government loans, but without the internal infrastructure required to deliver the loans directly to those agencies.

Depending upon the specific product, the FHLB either acts as an aggregator or issuer on non-credit enhanced loans and delivers them to Fannie Mae or other third-party investors such as Redwood Trust, or the FHLB holds the loans in its portfolio. Regardless of where the loans are held, the relevant government agency provides the credit insurance on the loans.

There are no monthly credit enhancement fees paid, and servicing options vary by product type on non-credit enhanced products. This Guide covers the following MPF non-credit enhanced products:

MPF Xtra: Secondary market fixed-rate, Fannie Mae mortgage products with no credit retention to PFIs. The FHLB of Chicago purchases Fannie Mae eligible mortgage loans from the PFI and sells the loans to Fannie Mae. The credit risk associated with the loans is assumed by Fannie Mae. MPF Xtra offers PFIs the benefits of a secondary market delivery with no

credit risk retained. Servicing retained and servicing released options are available.

MPF Direct: Secondary market jumbo mortgage product with no credit retention to the PFI. The FHLB of Chicago purchases jumbo loans from the PFI and sell the loans to Redwood Trust, a real estate trust and jumbo loan investor. The credit risk associated with the loans under the MPF Direct product is transferred to Redwood Trust. PFIs must be specifically approved to sell MPF Direct loans through their local FHLB by both the FHLB of Chicago and Redwood Trust. Servicing released only.

MPF Government: Secondary market fixed-rate, government-insured mortgage products including FHA, VA, RD Section 502, and HUD 184 loans with no credit risk retention to the PFI. The FHLB purchases MPF Government loans and holds them in portfolio. The credit risk associated with the loans is covered by the government agency that insures or guarantees the loan. Servicing retained and servicing released options are available.

MPF Government MBS: Secondary market fixed-rate, government-insured mortgage products including FHA, VA, USDA RD, and HUD closed loans with no credit risk retention to the PFI. The FHLB acts as an issuer, pooling these loans, and issuing Ginnie Mae-backed securities that are backed by the pools and sold to private investors. The credit risk associated

²² 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.

²³ 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.

with the loans themselves is covered by the insuring government agency while Ginnie Mae guarantees payments to the investors, thus removing any credit risk to the investors. PFIs must be approved by the applicable government agency to originate and service loans. Servicing retained and servicing released options are available.

NON-CREDIT ENHANCED

	LOAN TYPE	LOAN TERMS	INVESTOR	SERVICING OPTIONS
MPF Xtra	Fixed rate Fannie Mae products	conforming, loan to value up to 97%	Fannie Mae	Retain or release servicing rights
MPF Direct	Jumbo	up to 90% loan to value, up to \$2.5 million	Redwood Trust	Servicing released only
MPF Government	FHA, VA, USDA RD 502, HUD 184	determined by government program guidelines	FHLB	Retain or release servicing rights
MPF Government MBS	FHA, VA, USDA RD, HUD	determined by government program guidelines	Ginnie Mae Investors	Retain or release servicing rights