

# MORTGAGE PARTNERSHIP FINANCE® (MPF®) PROGRAM

## Establishing a Master Commitment

Whether you are a newly approved Participating Financial Institution (PFI) under the MPF Program or a seasoned seller, the term “Master Commitment” is important as it is the gateway to easily starting or continuing your valued secondary market relationship with us. Inside we’ll answer the most frequently asked questions about master commitments.

### What is a Master Commitment, and what does it look like?

A Master Commitment (MC) is an agreement executed between you and FHLBank Topeka. It defines the terms under which we will fund or purchase a pool of mortgages to be delivered by you. So an MC is signed and executed before you begin selling eligible loans to us. Each MPF Program traditional product, e.g., MPF Original, MPF 35, MPF 125, MPF Government, will have a specific MC form. Each form, regardless of MPF product, has roughly the same fields for completion.

### Why is a Master Commitment necessary under the MPF Program?

The MPF Program offers several different product structures to align with your credit risk sharing preferences. Loans funded under these MPF products (listed above) are pooled separately so the data components that define the MPF product, such as the hierarchy of loss structure, can be collected and monitored accurately.

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# ESTABLISHING A MASTER COMMITMENT

## How many Master Commitments are executed?

You may have multiple MCs assigned to your institution, especially if you want to retain the servicing rights for some loans, yet release those rights on other loans. Or, perhaps you want to sell conventional, fixed-rate loans and you also want to sell eligible government loans under the MPF Program. Both of these scenarios require a separate MC be issued to your institution.

Think in terms of these options to understand when a separate MC is needed: MPF product type; servicing released or retained; remittance type if retained (scheduled/scheduled; actual/actual; actual/actual single remittance); conventional or government; which government product (HUD Section 184, RSH Section 502; FHA/VA). MPF staff at FHLBank Topeka will set you up with the correct MC form(s).

## What are all those fields on the Master Commitment?

MPF staff at FHLBank Topeka will complete all required MC agreement fields, but to do so, they will need to know the options you have selected (e.g., which MPF product, servicing released or retained, remittance type, etc.).

MCs for conventional loans are issued typically for a one-year period (not less than three months) and renewed for an additional year; for MPF Government masters the timeframe is one year initially and renewed or extended each year up to 10 years in total. These timeframes will be reflected in the fields entitled **This Master Commitment made and accepted on** and **Estimated Completion Date**.

The **Master Commitment Amount** field represents the volume of loans you anticipate selling under the applicable MC within the given time frame (typically, one year). \$5 million annual volume is the minimum amount reported on the MC.

The **First Loss Account** (FLA) and **Credit Enhancement Fee** (CE) fields are part of the hierarchy of loss structure under the MPF Program. The FLA amount in basis points aligns with the applicable MPF product (e.g., typically 4 bps, per annum, against the

unpaid principal balance for MPF Original, 100 basis points against the funded amount for MPF 125, etc.) and is used to calculate FHLBank Topeka's share of the credit risk. The CE fee amount in basis points also aligns with the applicable MPF product and is used to calculate the amount of CE fee income paid to you for maintaining your share of the credit risk, called the credit enhancement obligation. The CE fee amount typically ranges from 7 to 10 basis points per annum against the unpaid principal balance of loans in the pool.

|                                |  |  |  |
|--------------------------------|--|--|--|
| Master Commitment No.:         | Selling PFI:   | PFI Number:  | This Master Commitment made and accepted on: |
| Master Commitment Amount:      | Servicing PFI:   | PFI Number:  | Estimated Completion Date:                   |
| First Loss Account:<br>100 bps | <input type="checkbox"/> Actual/Actual SR <input type="checkbox"/> Scheduled/Scheduled<br><input type="checkbox"/> Actual/Actual | <input checked="" type="checkbox"/> Closed Mortgages |  |
| Credit Enhancement Fee:<br>bps | Maximum PFI Credit Enhancement Amount:<br>\$   | Estimated PFI Credit Enhancement %:                  |  |

The **Maximum PFI Credit Enhancement Amount** field is calculated by taking the percentage amount indicated in the **Estimated PFI Credit Enhancement %** field, multiplied by the amount in the **Master Commitment Amount** field. If for example, the Master Commitment Amount is set at the minimum of \$5 million and your share of the credit risk is estimated to be approximately 6% of gross fundings, then the maximum PFI CE amount field will be \$300,000. Your actual share of the credit risk could be lower than the estimated amount, but this field is included on the MC form to provide a monitoring measure and a target level for additional communication and a possible MC amendment. The **Actual Credit Enhancement** amount must always be less than, or equal to, the **Maximum Credit Enhancement** amount for a given MC.

In general, the MC agreement sets the terms and initial limits of volume and CE obligation accumulation and once assigned an MC number (**Master Commitment No.** field) holds a specific set of eligible mortgage loans sold by you to us. Your MC number is key and is used in various transactional tasks such as to lock delivery commitments and sell loans to us. **If you have multiple MCs, using the correct MC number is imperative to make sure eligible loans are sold under the correct set of terms and conditions.**

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## LEARN MORE

If you have any questions about this process, please contact us.

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For a full list of other helpful guides about the MPF Program, visit our website at [www.fhlbtopeka.com/mpf](http://www.fhlbtopeka.com/mpf), select **Operational Guides** under **Related Resources**.



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