SECONDARY MKT

IS BEST EFFORTS PRICING REALLY YOUR BEST CHOICE?

Avoiding pair-off fees at all costs may not be the wisest option

Participating Financial Institutions (PFIs) often express concern that the Mortgage Partnership Finance® (MPF®) Program offers only mandatory delivery commitments for the Traditional product. A mandatory delivery commitment requires you to deliver a loan or possibly face a penalty known as a pair-off fee. No one in the mortgage industry wants to be charged a pair-off fee. But, are pair-off fees really that bad? Or, is it best efforts delivery you should really be avoiding?

Let's take a look at the pair-off fees charged on loans sold to the MPF Program from January to September 2015. Total pair-off fees of $297,100 were charged on 5,864 delivery commitments (DCs). While that figure is not small, when compared to the overall number of DCs, the average charge is approximately $50 per DC locked. This is a fairly minor amount and may be able to be offset by assessing a higher closing fee or similar amount to your upfront fee structure. It's easy to focus on the few loans that were charged pair-off fees instead of the majority of loans that closed without fees.

Why take the risk of incurring any pair-off fees if you can eliminate them with best efforts delivery? To answer this, you need to better understand how best efforts delivery works.

continued on next page

your
SECONDARY MARKET SPECIALIST

CHRIS ENDICOTT
785.438.6087
chris.endicott@fhlbtopeka.com

Chris has been in the banking industry for more than 16 years, 10 at FHLBank Topeka. He is a graduate of Emporia State University. Contact him today.

Find out more about Chris and our funding specialists at **FHLBTOPEKA.COM/INTELLIGENCE.**

Best efforts delivery allows you to cancel a DC without incurring a penalty, but that flexibility is incorporated into the pricing. We can illustrate an example of this price difference using our MPF Xtra® product, which offers both mandatory and best efforts delivery commitments. See the comparison table at the right for an example scenario.

The 25 basis point difference in the pricing allows best efforts commitments to avoid penalties. You pay no penalties because you are essentially paying a 25 bps pair-off fee on every loan you sell into a best efforts commitment. Every time you deliver a loan under a best efforts agreement you are making 25 bps less than you would have made under a mandatory commitment.

Pricing Scenario | Mandatory vs. Best Efforts

30-yr Fixed	3.875% (20 business-day lock)
Mandatory Delivery Price	102.363
Best Efforts Delivery Price	102.113
Difference	25 bps

Our year-to-date loans purchased totaled $777,195,000. If all of the loans were sold under this best efforts scenario our members would have made $1,942,987 less in upfront price income. PFIs would have lost nearly $2 million in income in order to save $297,100 in pair-off fees. We understand that no PFI wants to pay pair-off fees, but this analysis shows that even PFIs who were charged fees are still ahead of the game income-wise on average.

When others clamor for best efforts delivery instead of mandatory to avoid paying pair-off fees, you know the truth. Best efforts costs income on every loan you deliver; mandatory only costs on the few loans you don't deliver.

Please contact me with any MPF Program questions or to further discuss this comparison.

Contact Chris today for solutions that work for you.

☎ 785.438.6087 chris.endicott@fhlbtopeka.com fhlbtopeka.com/intelligence

FHLBank Topeka