SECONDARY MKT

WHICH MPF® PRODUCT IS RIGHT FOR YOU?

FHLBank products offer risk and fee options

The general value proposition of FHLBank's Mortgage Partnership Finance® (MPF) Program is fairly straightforward. You receive ongoing fees for retaining a piece of the credit risk from mortgages originated and sold by your institution. With comparable upfront pricing on the mortgages sold, the ongoing fee income provides more bottom-line earnings, assuming the performance of the loans falls into certain future-loss parameters.

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.**

FHLBank Topeka offers two MPF risk-sharing products — MPF Original and MPF 125 — with a trade-off between the level of credit risk retained and the ongoing fees received on the sold mortgages. Both products provide ongoing credit enhancement (CE) fees with the sold mortgages supported by a credit structure including an FHLBank-provided First Loss Account (FLA) followed by a member-provided CE Obligation.

continued on next page

MPF Product Comparison

	MPF PRODUCT	
	MPF Original	**MPF 125**
Per Annum CE Fees	10 bps guaranteed	10 bps performance-based
FHLBank FLA	4 bps annum	100 bps of gross fundings
Volume Requirements	None	$30 million per annum or CE fee is lessened to 7 bps

The table on the previous page illustrates the trade-off between the CE fees that are paid to members on the sold loans and the FLA that covers the first level of losses in the MPF loan pool.

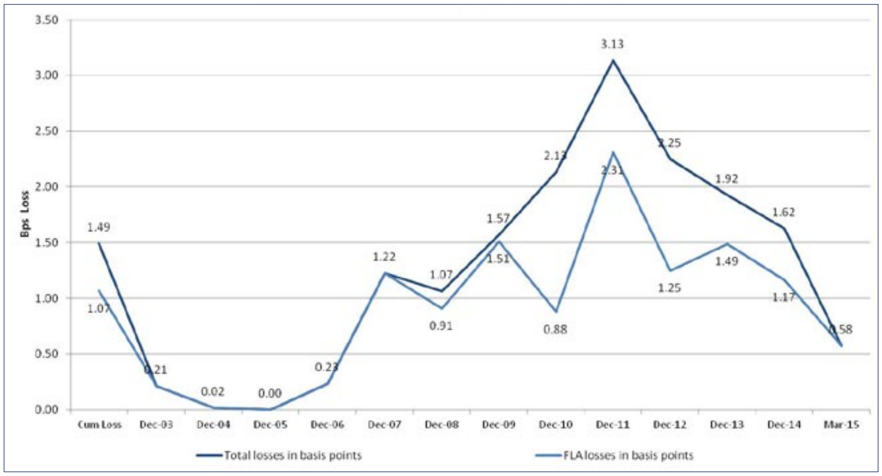
The MPF Original product offers guaranteed CE fees with a generally smaller FLA that accrues at 4 basis points per annum against the unpaid balance. The MPF 125 product has a larger FLA that is 100 basis points of the total loans funded into an MPF loan pool with the future CE fees being performance based, which means that CE fees are withheld to offset credit losses that are covered by the FLA.

So which MPF Product is right for you? As is often the case with such a question, it depends…

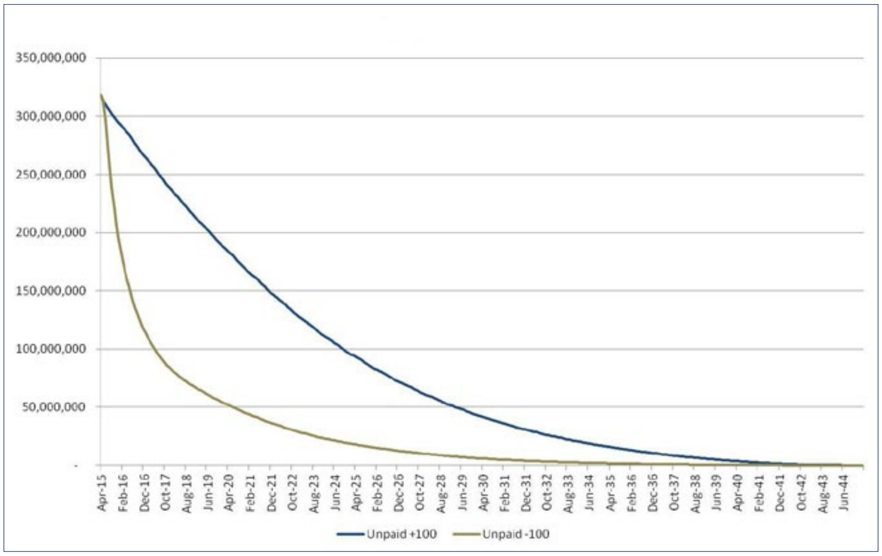
The graph above illustrates the historic annual losses in basis points experienced from FHLBank Topeka's MPF portfolio.

The performance of the portfolio has been nothing short of exemplary with annual credit losses averaging just 1.49 basis points of the unpaid balance. The highest year of credit losses was 3.13 basis points in 2011. This historic loss analysis would suggest the MPF Original product is best because the CE fees are guaranteed and the losses have not exceeded the 4 basis point annual FLA accrual indicating that losses do not generally flow through to the member's CE obligation. However, the graph also shows that only 72% of the 1.49 basis points in average credit losses are covered by the FLA, so some master commitments do have losses that exhaust the FLA and are covered from the member-provided CE obligation.

MPF Annual Loan Losses — Historic & FLA Losses



MPF 125: The Other Risk-sharing Option



Members wanting a little more protection against credit losses hitting the CE obligation can consider the MPF 125 product that offers the 100 basis point FLA. However, the CE fees are performance based meaning the member will likely receive less in CE fees if there are highter credit losses.

The graph to the left illustrates the projected prepayment of an actual MPF loan portfolio. As expected, the loans prepay quicker if interest rates decline and slower if rates rise.

For either MPF product, the longer the loans remain outstanding, the larger the amount of CE fees the member can expect to receive.

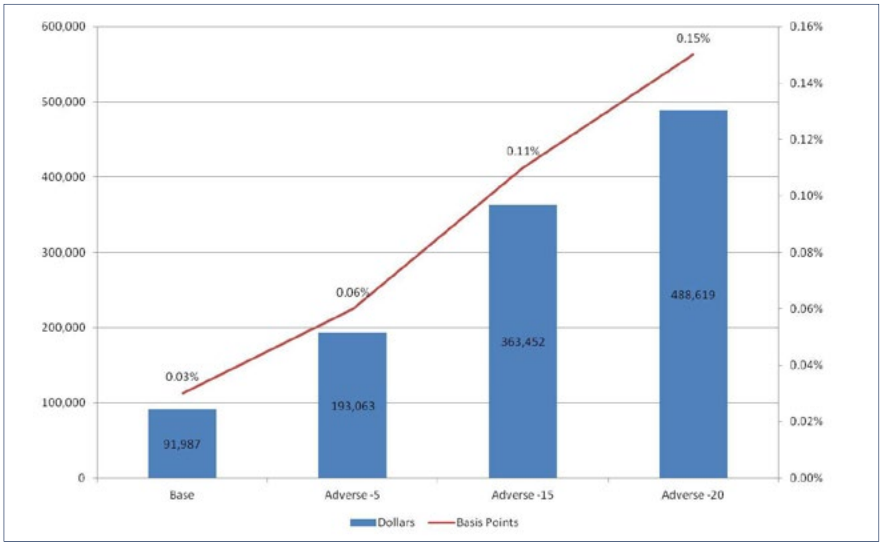
continued on next page

As mentioned previously, the amount of CE fees received on MPF 125 pools is also influenced by the performance of the loan pool and the amount of credit losses sustained. The MPF 125 pool is fairly typical of FHLBank Topeka's MPF pools and has projected lifetime losses of only 3 basis points in a base case, or expected scenario, and 15 basis points in losses in an adverse scenario where home prices drop 20 percent.

The loans have a duration of around 5 years, suggesting per annum losses might average less than a basis point in the base case and around 3 basis points per year in the adverse scenario. This is very similar to the historic experience of FHLBank Topeka's portfolio.

If we combine the loss projections with the CE fees generated by the MPF pool amortization in different interest rate and loss scenarios, the CE fees and credit losses being covered by the member's CE obligation is shown in the above graph for the two MPF products.

Projected Lifetime Loss



		-100 Interest Rates		+100 Interest Rates	
		CE Fees	CE Losses	CE Fees	CE Losses
MPF Original	Base Loss Scenario	824,686	0	2,425,084	0
	Stress Loss Scenario	824,686	0	2,425,084	0
MPF 125	Base Loss Scenario	732,699	0	2,333,097	0
	Stress Loss Scenario	336,943	0	1,936,465	0

In this example, the member would be better off with the MPF Original product because projected losses are not expected to exceed the 4 basis point FLA accrual. However, if losses did exceed the FLA by more than the 10 basis point CE fee being paid on the MPF loan pool, the member would be better off in the MPF 125 product. MPF 125 also carries a lower risk-based capital cost because the member CE obligation amount is reduced by the 100 basis point FLA resulting in a lower capital allocation.

Please contact me with any MPF questions or to discuss which product is right for your institution.

Contact Chris today for solutions that work for you.

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

FHLBank Topeka