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# Low Loan Balance Pricing

## A Winning Option for All

Processing a mortgage involves costs, and most of those costs don't change because of the loan amount. It takes just as much time to underwrite, process and close a \$125,000 home loan as it does a \$500,000 loan. However, you earn substantially less as the lender.

If it costs your institution \$1,000 to complete a single mortgage loan, the following scenario could happen quite often.

In the extreme example below (Chart 1), you would lose money to make the \$125,000 loan. This can force you to charge smaller loan borrowers higher rates or fees to complete their loans. Alternatively, you may choose to make an in-house loan, which would usually require a shorter term or an adjustable-rate mortgage.

What if you could offer a comparable rate to your borrowers, keep your charges the same

and cover the cost of the loan? Now you can thanks to the new MPF® Program low loan balance pricing option.

With this enhancement, pricing is broken down into tiers based on the loan size with smaller loans providing a better premium in rate-to-rate comparisons.

FHLBank Topeka can provide the higher premium because smaller loans tend to prepay slower than larger loans, which results in slower premium amortization along with a relatively higher yield. This pricing differential may allow the lender to generate enough premium so smaller loans make sense for both you and your borrowers.

For example, Chart 2 shows what would happen if we used low loan balance pricing with the earlier example.

**Chart 1**

Loan Amount	Rate	Price	Premium	Net Premium (Minus \$1,000)
\$125,000	5%	100.407	\$508.75	(\$491.25)
\$500,000	5%	100.407	\$2,035.00	\$1,035.00

**Chart 2**

Loan Amount	Rate	Price	Premium	Net Premium (Minus \$1000)
\$125,000	5%	101.607	\$2,008.75	\$1,008.75
\$500,000	5%	100.407	\$2,035.00	\$1,035.00

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Chris has been at FHLBank Topeka since 2005 and previously worked for a community bank. He is a graduate of Emporia State University. Contact him today.



With the low loan balance pricing method, the premium for the \$125,000 loan now makes sense for your institution and allows you to maintain the same rates and fees for your borrowers on smaller loan sizes.

**How to Take Advantage of Low Loan Balance Pricing**

When you log into the eMPF® website, low loan balance pricing is now available for your use.

We have activated five total sub-product options across the MPF Traditional Product:

**15 Year**

- \$175K Max Loan Size

**20 Year**

- \$175K Max Loan Size

**30 Year**

- \$125K Max Loan Size
- \$175K Max Loan Size
- \$225K Max Loan Size

The process to lock a low loan balance delivery commitment is nearly identical with the addition of just one step:

1. Select Delivery Commitment under the Transactions tab on eMPF.
2. Fill in the required information as you do now
3. **NEW! Also select the correct sub-product loan size pricing grid from the drop-down menu**
4. Select Submit
  - a. NOTE: Please review and verify the pricing is what you expected to see from the low loan balance grid.
5. Select Confirm

Please Note: The pricing grid spreads are subject to change at any time. You are not guaranteed a premium/agent fee until a delivery commitment is locked.

If you have any questions about this new offering, get in touch.

**Contact Chris today for solutions that work for you.**

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