

December 3, 2019

## Additional Information Regarding Pool Level Credit Enhancement and Minimum Credit Enhancement Amounts

### Why update the MPF® Traditional Selling Guide?

Under the MPF Original, MPF 35, and MPF 125 products, the Credit Enhancement (CE) for a loan is calculated as loans are presented in eMPF®. This process occurs using the CE Estimator or as loans are delivered. Also, the credit enhancement may be updated after the loan is delivered due to post-funding data updates and quality control review results.

We have an operational model that is used for calculating credit enhancement as needed for both the CE Estimator and for loan presentments and delivery. We are also required to have a supplemental model that is used periodically to verify that the credit enhancement amount calculated by the operational model is sufficient based on regulatory stress testing requirements. All Master Commitments must sufficiently demonstrate adequate coverage compared to results calculated by both the operational model and the supplemental model processes.

The operational model is set with a goal to ensure that results are sufficient to establish an appropriate level of credit enhancement. Because no model can predict with 100% certainty, it is possible, although highly unlikely, for a Master Commitment to have a supplemental model credit enhancement which is greater than the eMPF operational model credit enhancement. In those cases, our analysis indicates that the impact of the difference would be minimal.<sup>1</sup>

- One out of 750 Master Commitments, or 0.1% of Master Commitments, the supplemental model returns a higher credit enhancement than the operational model.
- The only Master Commitments with higher supplemental model credit enhancements have one or two loans delivered.
- The average difference for those Master Commitments is \$1,000.

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<sup>1</sup> The analysis was based on outstanding Master Commitments as of 6/30/2019 using the model versions in use at that time. The results may change based on economic scenario and modeling updates.

Up until now, the MPF Program has not adjusted the credit enhancement amount based on supplemental results because the impact was viewed to be immaterial. However, based on regulatory guidance, we can no longer waive adjusting the credit enhancement. We plan to use a process similar to the process we use for quality control review adjustments to the credit enhancement. If the supplemental model provides a higher credit enhancement, we will update the credit enhancement no later than 30 days after all open Delivery Commitments have been satisfied and the Master Commitment is closed.

**Will my Master Commitments be impacted?**

Based on our analysis, it is highly unlikely that a Master Commitment will be impacted, and the impact would be minimal. One out of 750 Master Commitments (0.1% of Master Commitments) could be impacted and the average PFI Credit Enhancement Obligation difference would likely be around \$1,000.

**What is the process if the PFI Credit Enhancement Obligation requires adjustment?**

The MPF Program will review supplemental model results monthly to identify and communicate if we think there is a risk of a credit enhancement adjustment for a Master Commitment. If an adjustment is needed, the adjustment will occur no later than 30 days after all open Delivery Commitments have been satisfied and the Master Commitment is closed.

**Why is the MPF Program Guide Chapter 2 - MPF Mortgage Products being updated regarding minimum credit enhancement amounts?**

The MPF Program anticipates implementing new minimum CE amounts for MPF Original, MPF 35, and MPF 125 in 2020. Your MPF Traditional product Master Commitment specifies the minimum CE amount, if applicable. The MPF Program Guide has been updated to clarify that minimum CE amounts are detailed in the Master Commitment.

**And if I have additional questions?**

Please contact your MPF Bank representative if you have any additional questions regarding the MPF Traditional Selling Guide and MPF Program Guide updates.