



WILARY WINN LLC



ADVICE TO
STRENGTHEN
FINANCIAL
INSTITUTIONS

Mortgage Lending – Part 2

Best Execution

Federal Home Loan Bank – Des Moines

Douglas Winn, President

Frank Wilary, Principal

Wilary Winn LLC

August 9, 2022

MORTGAGE BANKING WEBINARS

- 1) Mortgage Lending Part I – Sell or Hold
- 2) Mortgage Lending Part II – Best Execution
- 3) Mortgage Banking Accounting



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TOPICS FOR TODAY'S SESSIONS

- 1) Who should I sell my loans to?
- 2) How should I sell my loans?
- 3) How do I ensure best execution?
- 4) Should I retain or release the MSR?



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TODAY'S PRESENTERS

Douglas Winn

Mr. Winn has nearly 40 years of executive level financial experience. He is a nationally recognized expert regarding accounting and regulatory reporting for financial institutions. Doug regularly advises major accounting firms on areas where finance and accounting intersect, including valuation. Many Wilary Winn white papers, which he has authored or co-authored, are considered standards for the industry. Mr. Winn is regularly invited to speak at conferences, and he has led seminars sponsored by the AICPA, the FDIC, the FFIEC, the FHLBanks, the NCUA, and many of the country's largest accounting firms.

Doug co-founded Wilary Winn and is responsible for the firm's strategic direction. From just an idea in 2003, Wilary Winn has grown into a national presence with financial institution clients located across the United States. Wilary Winn's clients include nearly 300 community banks, 80 of which are publicly traded, and nearly 300 credit unions, including 45 of the top 100.

In his earlier career, Doug held multiple senior executive finance roles in the mortgage banking industry. He began his career as a practicing CPA for Arthur Young & Company – now Ernst & Young.



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TODAY'S PRESENTERS

Frank Wilary

Mr. Wilary has nearly 30 years of diversified experience in the financial services industry and has served financial institution clients for the past 19 years. Areas of expertise include asset liability management (ALM), credit loss modeling, capital markets, structured finance, derivatives and information systems.

Frank co-founded Wilary Winn in 2003 and his primary responsibility is to lead the research, development and implementation of Wilary Winn's new business lines. He works to ensure that new products and services meet the firm's high standards before transferring primary responsibility to one of its business line leaders. Frank ensures that client deliverables are of the utmost quality, the valuation process is consistent, and that best practices are used across the firm's lines of business.

Mr. Wilary regularly speaks at financial institution conferences on asset liability management, credit loss modeling, and concentration risk management. Frank's presentations frequently focus on achieving best practices in ALM by assessing credit risk, interest rate risk and liquidity risk on an integrated basis.

Prior to co-founding Wilary Winn, Mr. Wilary held senior positions in treasury, capital markets, accounting, finance and systems within two organizations.



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MORTGAGE INVESTORS

TO WHOM SHOULD I SELL

Residential Mortgage Loan Buyers

- Federal Home Loan Bank
- FNMA / FHLMC
- Correspondent



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Investors

Mortgage Loan

Bank



HOW DO I SELL

HOW DO I SELL

Based on Volume and Appetite for Risk

- Best efforts
- Mandatories
- Cash versus MBS



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HOW DO I SELL

Best Efforts

- Less Risk
- Lower Price
- Not a derivative



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HOW DO I SELL

Mandatories

- More Risk
- Higher Price
- Is a derivative





BEST EXECUTION

BEST EXECUTION

Pricing Components

- Loan term
- Interest rate
- Type of loan
- Borrower credit and loan attributes – LLPAs
- Lock length
- Type of lock – mandatory versus best efforts
- Value of servicing
- Value of net CE fees



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BEST EXECUTION

Pricing Comparison Based on June 30, 2022 Prices

30 Year Loan
 \$250,000 UPB
 5.250% Note Rate
FICO 720 & 80% LTV

	MPF 125	FNMA	Correspondent #1	Correspondent #2
Base Price (30 Day Lock)	100.6329	100.1195	97.2990	98.9580
Loan Level Price Adjustments	N/A	-0.7500	-0.7500	-0.7500
Mortgage Servicing Rights / SRP	0.9828	1.0710	4.1700	2.5420
CE Fee Receivable	0.2795	N/A	N/A	N/A
Total All-in Price	101.8952	100.4405	100.7190	100.7500
Gain on Sale	\$4,738.12	\$1,101.13	\$1,797.50	\$1,875.00
Delivery Method	Mandatory	Best Efforts	Best Efforts	Best Efforts



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BEST EXECUTION

Pricing Comparison Based on June 30, 2022 Prices

30 Year Loan
 \$250,000 UPB
 5.250% Note Rate
FICO 680 & 90% LTV

	MPF 125	FNMA	Correspondent #1	Correspondent #2
Base Price (30 Day Lock)	100.6329	100.1195	97.2990	98.9580
Loan Level Price Adjustments	N/A	-1.2500	-1.2500	-1.3000
Mortgage Servicing Rights / SRP	0.9828	1.0710	4.1700	2.5420
CE Fee Receivable	0.2795	N/A	N/A	N/A
Total All-in Price	101.8952	99.9405	100.2190	100.2000
Gain on Sale	\$4,738.12	-\$148.87	\$547.50	\$500.00
Delivery Method	Mandatory	Best Efforts	Best Efforts	Best Efforts

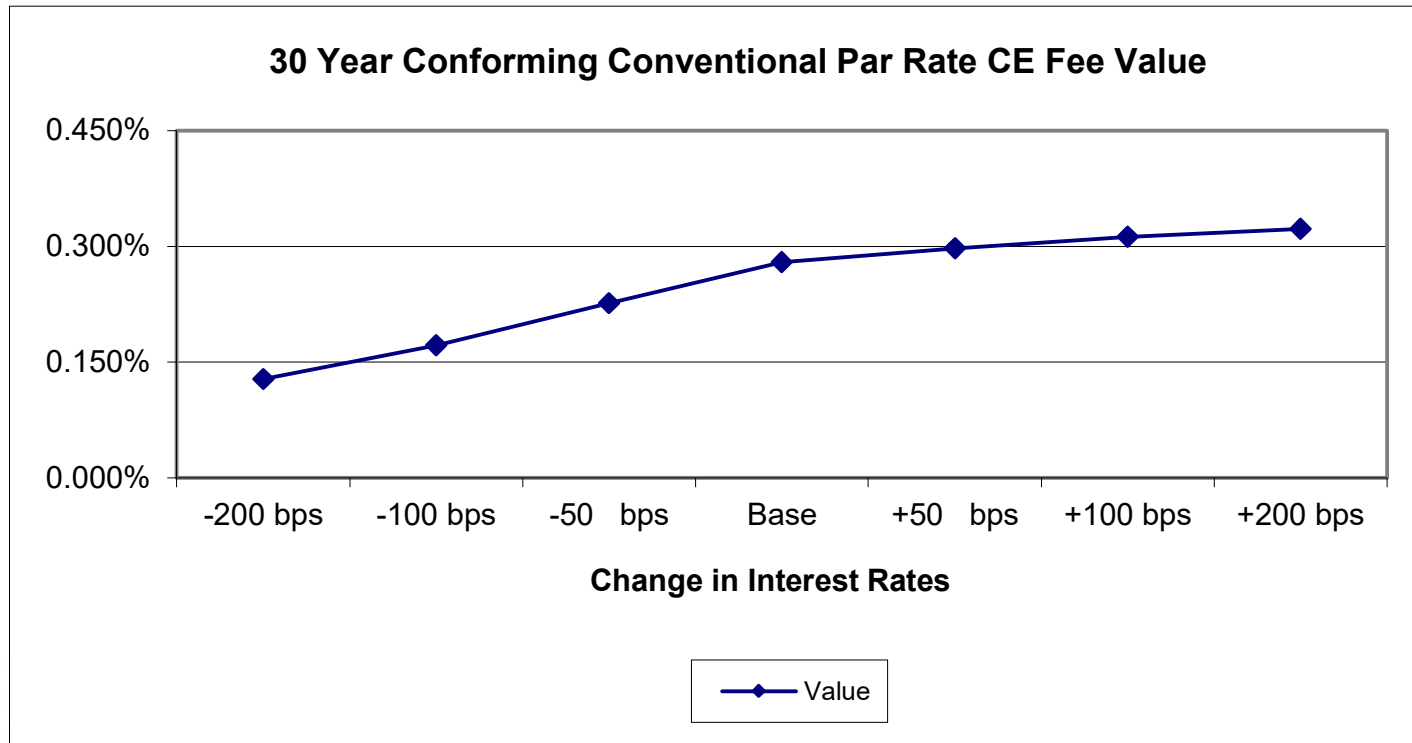


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BEST EXECUTION

Value of CE Fees

Prepayment assuming no losses:



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FHLB Programs – Risk and Reward

Program Comparison		
	MPF Original	MPF 125
CE fees	9 bps	7 bps
First loss account	4 bp per year	1 percent
CE payment	Fixed	Performance Based



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BEST EXECUTION

FHLB Programs – Regulatory Capital Implications

Risk-weighting – SSFA calculator

30 Year Loan
\$250,000 UPB
5.250% Note Rate

	Loan #1	Loan #2
FICO Score	720	680
LTV	80%	90%
Estimated CE Obligation	\$8,756.51	\$16,493.41

Increase Risk Weighted Assets

SSFA*	\$107,638.28	\$145,792.86
Gross-Up Method	\$123,750.00	\$123,750.00
CE Obligation * 12.5	\$109,456.38	\$205,492.63

* Simplified Supervisory Formula Approach



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Capital Implications

- Required activity stock – 4% of outstanding principal balance of the loans sold under the MPF traditional programs
- Most recent FHLB Des Moines dividend rate 6.75%
- Need to consider the effect of the program on risk-weighted capital



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Investors

Mortgage Loan

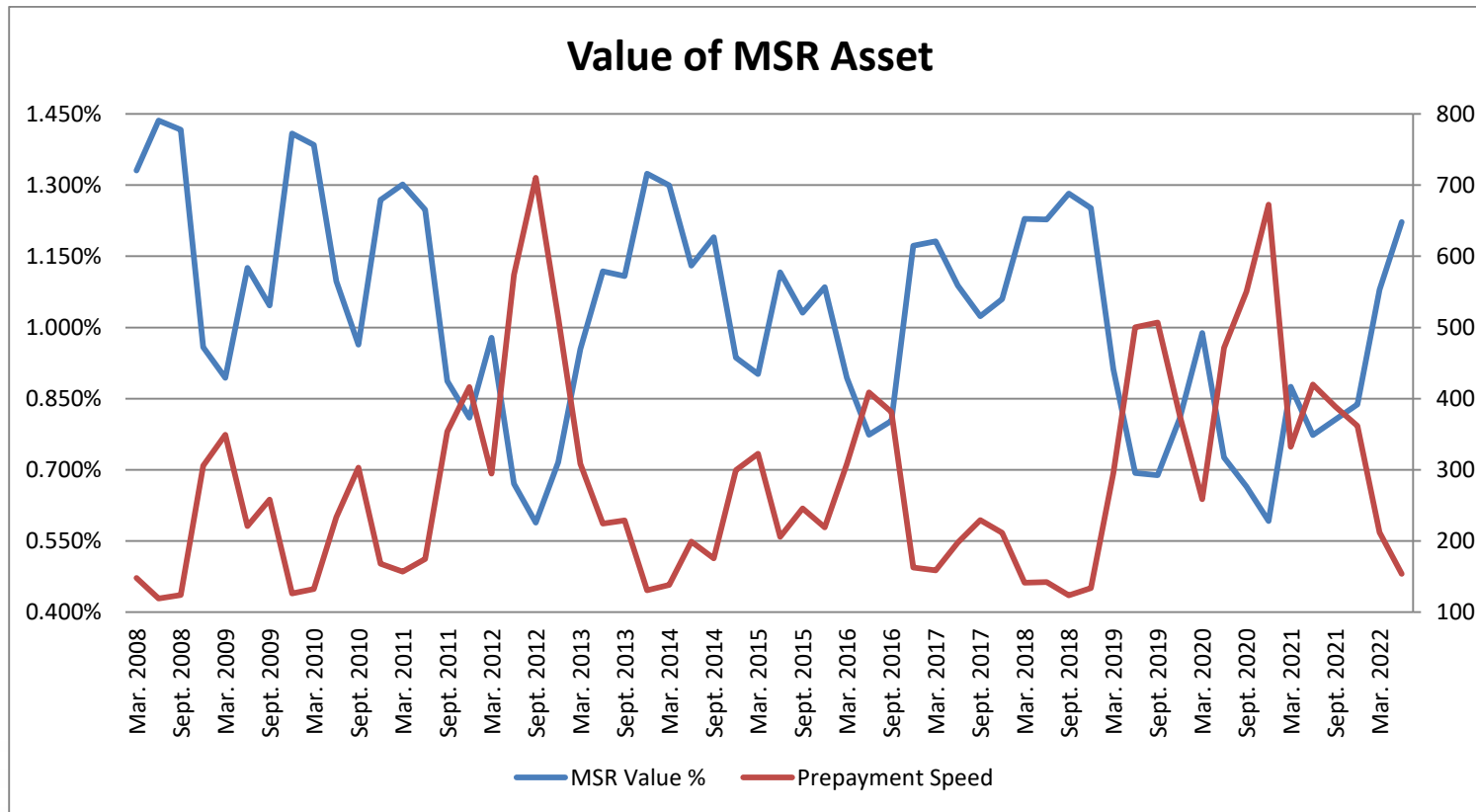
Bank



MORTGAGE
SERVICING

LOAN SERVICING

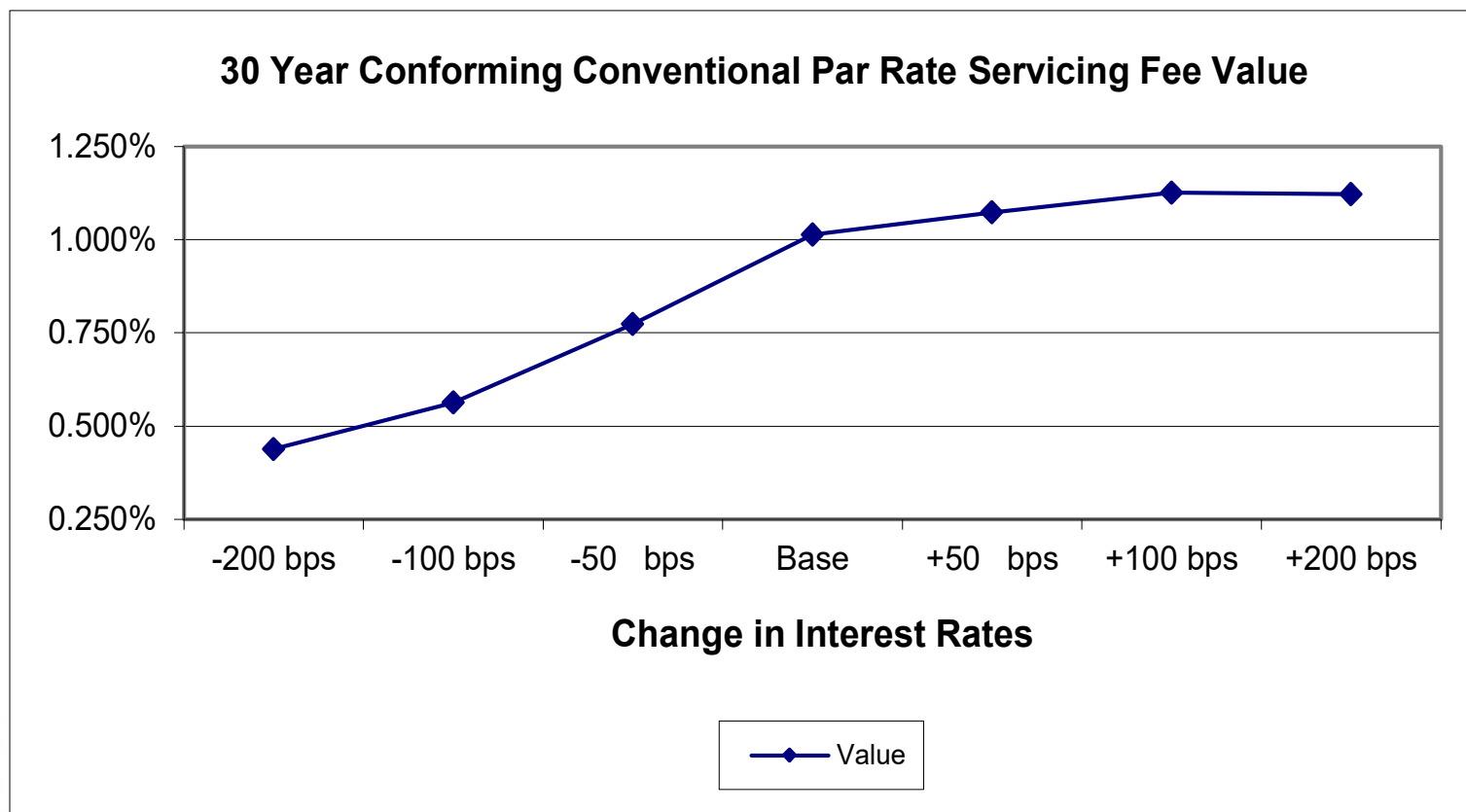
Value of Servicing



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LOAN SERVICING

Value of Servicing



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LOAN SERVICING

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Thank You

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