

The MPP Credit Report: A Five-year History

Unlike other loan sale outlets, MPP does not charge sellers credit guarantee fees. Instead, MPP utilizes a combination of a member-owned lender risk account (LRA) and supplemental mortgage insurance to create a AA-rated credit structure.

BY JIM EBEL, CFA, VP & INSURANCE MARKET MANAGER

MORTGAGE PURCHASE PROGRAM

The Mortgage Purchase Program (MPP) has provided a new sale outlet for Federal Home Loan Bank of Indianapolis (FHLBI) members. As of April 30, 2006, MPP completed its fifth year of operation. As of that date, the FHLBI had purchased a total of \$14.8 billion in conventional mortgages and was managing a portfolio of \$9.9 billion. MPP sellers were a diverse group that included large mortgage banking operations, thrifts, agricultural banks, commercial banks, and credit unions. A total of 115 institutions had been approved to sell loans, 69 of which had sold loans to MPP.

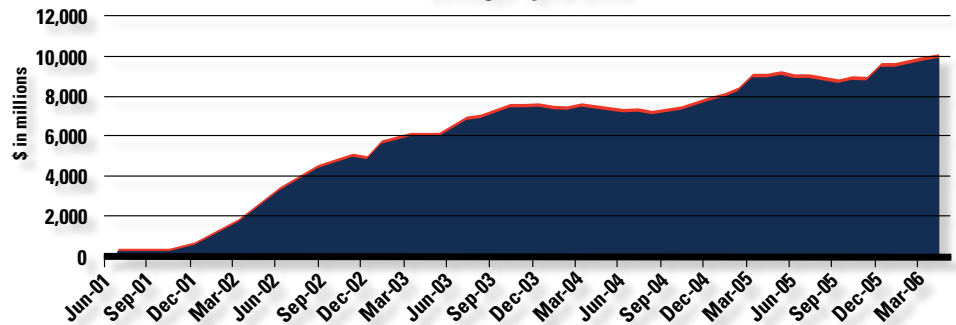
MPP'S HIGH CREDIT QUALITY

The FHLBI has built an exceptionally high credit quality loan portfolio through MPP. While loans with credit scores as low as 620 qualify, over 80% of the 91,123 loan purchases had scores greater than 700. The portfolio's raw average credit score was 743. When weighted by loan size, the portfolio's average credit score increased to 763.

While MPP's underwriting guidelines are conservative, credit scores (and other metrics) suggest that FHLBI members have tended to sell loans with substantially higher quality than the program requires. While some of this is rooted in the high quality of FHLBI member loan originations, MPP's economic incentives are a key driver.

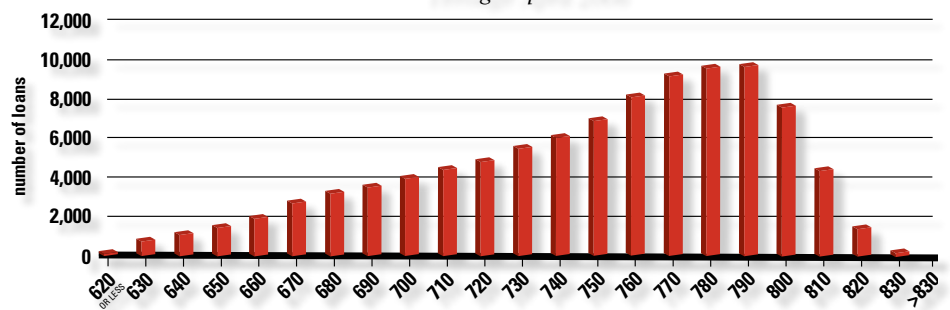
MPP Balances

Through April 2006



MPP Portfolio Credit Scores

Through April 2006



LENDER RISK ACCOUNT (LRA) PERFORMANCE

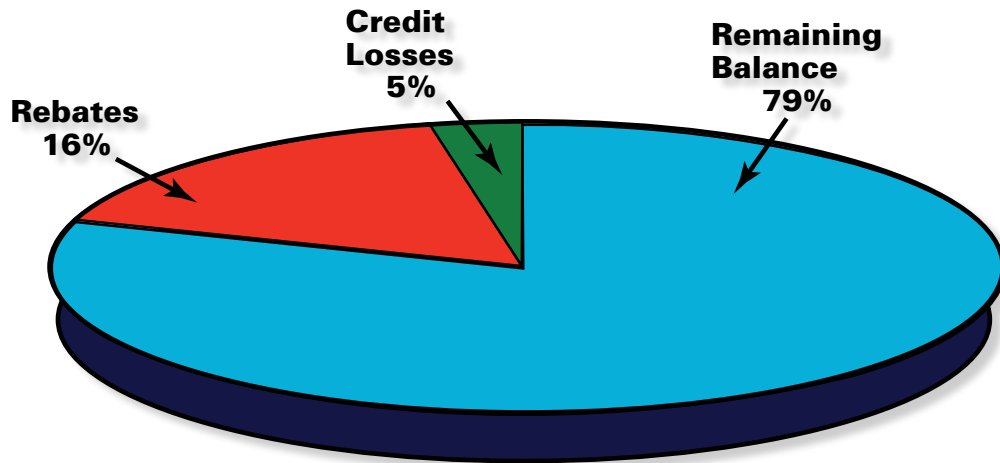
The high quality of MPP loan purchases has been validated by the first five years of LRA performance. During this period, a total of \$17.7 million had been collected in 249 separate lender risk accounts. As of April 30, 2006, \$14 million or 79% of LRA funds remained in these seller owned accounts and \$2.8 million or 16% had already been rebated to loan sellers. The remaining 5% of LRA funds had been used to cover loan losses totaling \$846,673. Based on the FHLBI's \$14.8 billion purchase volume, these credit losses appear negligible.

Remarkably, only 16 or 6% of LRAs had experienced any credit losses for the period. All of these contracts had been filled by sellers engaged in third-party originations.

As of April 30, 2006, LRAs were being funded at an annualized average of 7.35 basis points of outstanding principal, or approximately \$545,000 per month.

Given current LRA balances, robust monthly inflows, and the persistence of low loan losses, LRAs have emerged as a significant economic asset for MPP sellers.

Disposition of LRA Funds



As of April 30, 2006, \$14 million or 79% of LRA funds remained in these seller owned accounts and \$2.8 million or 16% had already been rebated to loan sellers. The remaining 5% of LRA funds had been used to cover loan losses totaling \$846,673.

Mortgage Purchase Program Enhancement

The Federal Home Loan Bank of Indianapolis, (FHLBI) now offers a significant enhancement to its Mortgage Purchase Program (MPP).

Effective immediately, member institutions participating in MPP can choose to participate through the "Pool Aggregation" program. Developed in cooperation with FHLBI's supplemental mortgage insurance partners, MGIC and Genworth Financial, the MPP Pool Aggregation program provides a considerable reduction in credit enhancement cost. When compared to our existing program, this reduced credit enhancement cost results in better up front pricing for our small- to mid-sized mortgage sellers, defined as those with a master commitment contract of less than \$100 million.

The Pool Aggregation program will pool together multiple sellers' master commitments for the purpose of obtaining supplemental mortgage insurance (SMI) credit enhancement. The MPP's unique "Lender Risk Account" (LRA) enhancement will remain in place under the Pool Aggregation program, and in the unlikely event that losses exceed any single seller's LRA balance, the LRA from other Pool Aggregation program sellers will be used to absorb a seller's excess losses.

FHLBI members may now choose to participate in MPP under the existing program or under the new Pool Aggregation program.

For more information and details about MPP Pool Aggregation, please contact the MPP Division at 800-274-4636.