Case Study: Mortgage Hold vs. Sell Analysis

FHLBank Boston

Strategic partnerships. Reliable funding.

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Overview

- What Drives the Hold or Sell Decision?
- The Benefits of Mortgage Partnership Finance® (MPF®) 35
- Scenario Analysis: Sell, Hold, or a Blended Approach?

The Hold vs. Sell Approach

A higher coupon supports the hold case, but it may not answer the hold/sell question by itself.

Expected life

Will the coupon stay outstanding long enough?

All-in hold value

Does the return justify the capacity and risk?

Balance sheet capacity

Would holding consume scarce liquidity or concentration?

Risk transfer

Would MPF 35 improve the risk mix?

Use of proceeds

Would cash solve a higher-value need?

Source: FHLBank Boston

Hold vs. Sell Risk Impact

Selling the pool changes the mix of risk, liquidity, income, and balance sheet capacity.

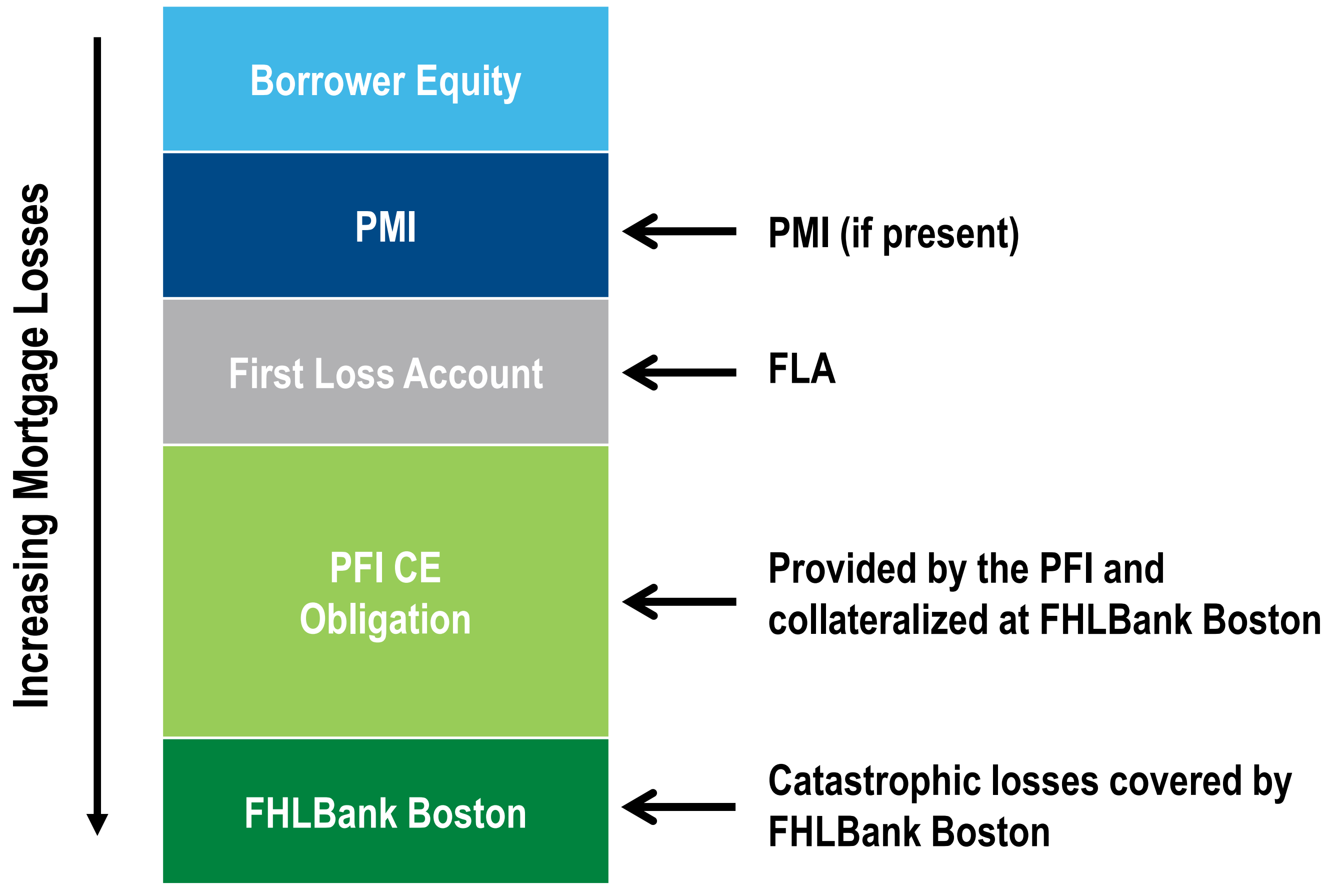
Risk / Economics	Hold in Portfolio	Sell Through MPF 35
Interest-rate risk	Retained	Transferred
Prepayment risk	Retained	Transferred
Credit risk	Retained	Shared through FLA / CE Obligation
Servicing relationship	Retained	Can be retained or released
Liquidity	Balance sheet consumed	Sale proceeds received
Future optionality	Lower	Higher

Source: FHLBank Boston

Shared Credit Risk Waterfall

Losses are absorbed in layers before reaching the Participating Financial Institution (PFI) Credit Enhancement (CE) Obligation.

Loss Absorption Profile



Source: FHLBank Boston

Sample Decision: $10MM of New Mortgage Production

A $1B depository originates a $10MM pool of new 30-year fixed-rate residential mortgages.

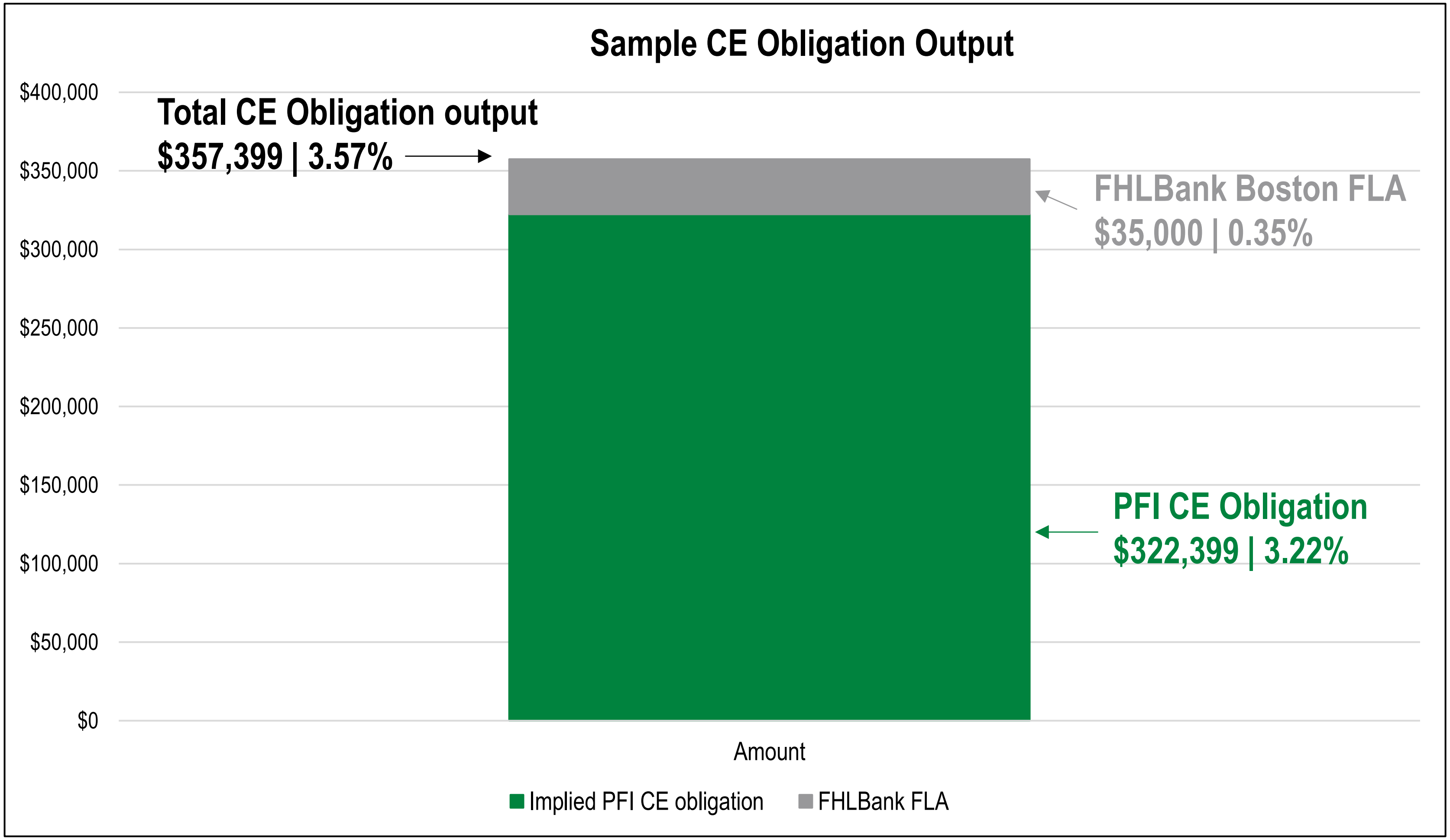
Sample Member	Value
Total assets	$1,000,000,000
Loan-to-deposit ratio	90.0%
Borrowings/assets	10.0%
1–4 family loans/assets	50.0%
Securities/assets	10.00%
Cost of funds	2.00%
NIM	2.50%

Sample Pool	Value
Pool size	$10,000,000
Loan count	25
Average loan size	$400,000
Note rate	6.50%
Product	30-year fixed
Geography	New England suburban
Servicing	Retained
MPF product	MPF 35

Source: FHLBank Boston

Credit Enhancement Obligation

For the sample $10MM pool, the PFI CE Obligation starts only after borrower equity, any PMI, and the FHLBank Boston First Loss Account (FLA).



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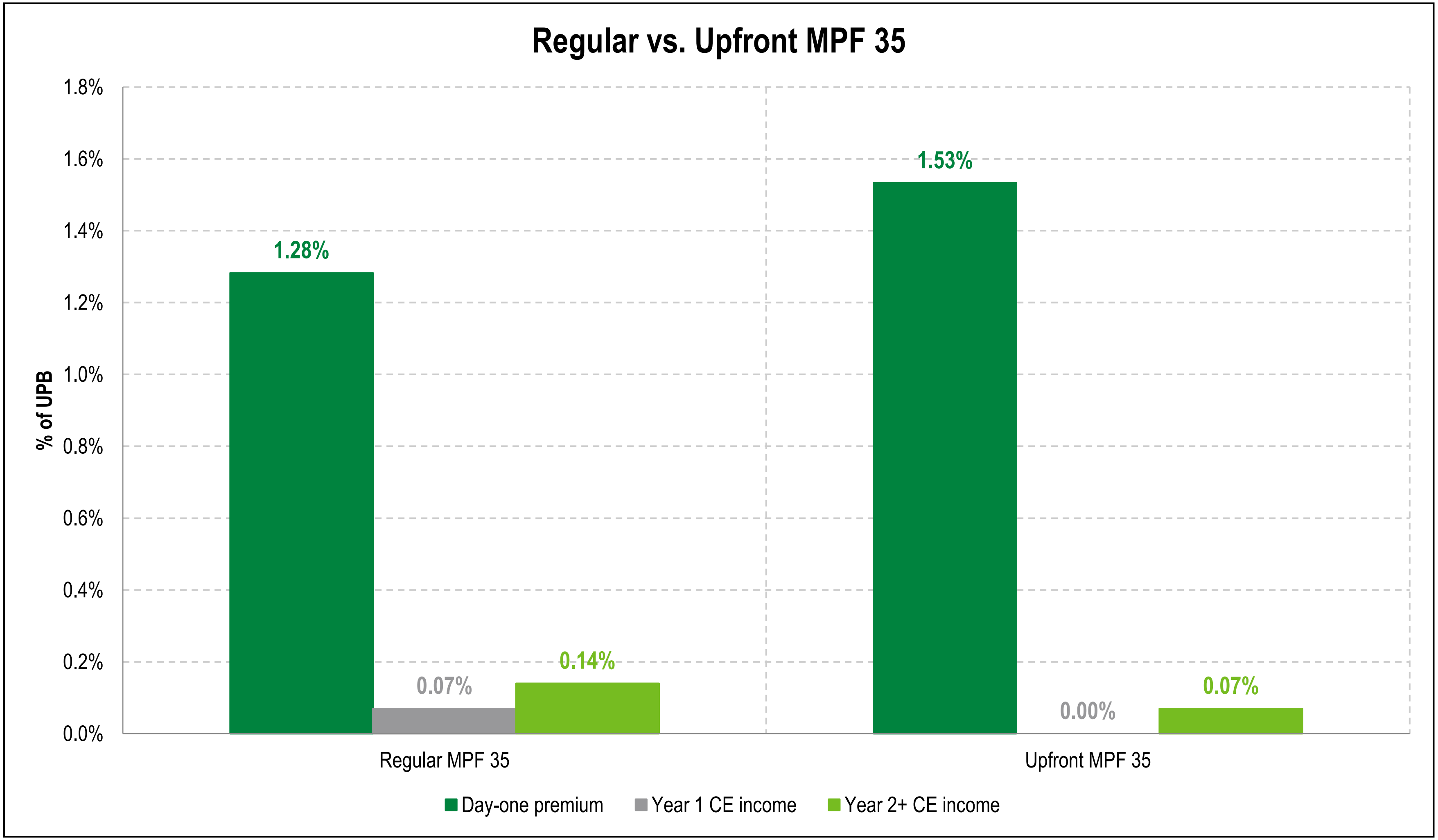
Source: FHLBank Boston

Regular vs. Upfront MPF 35

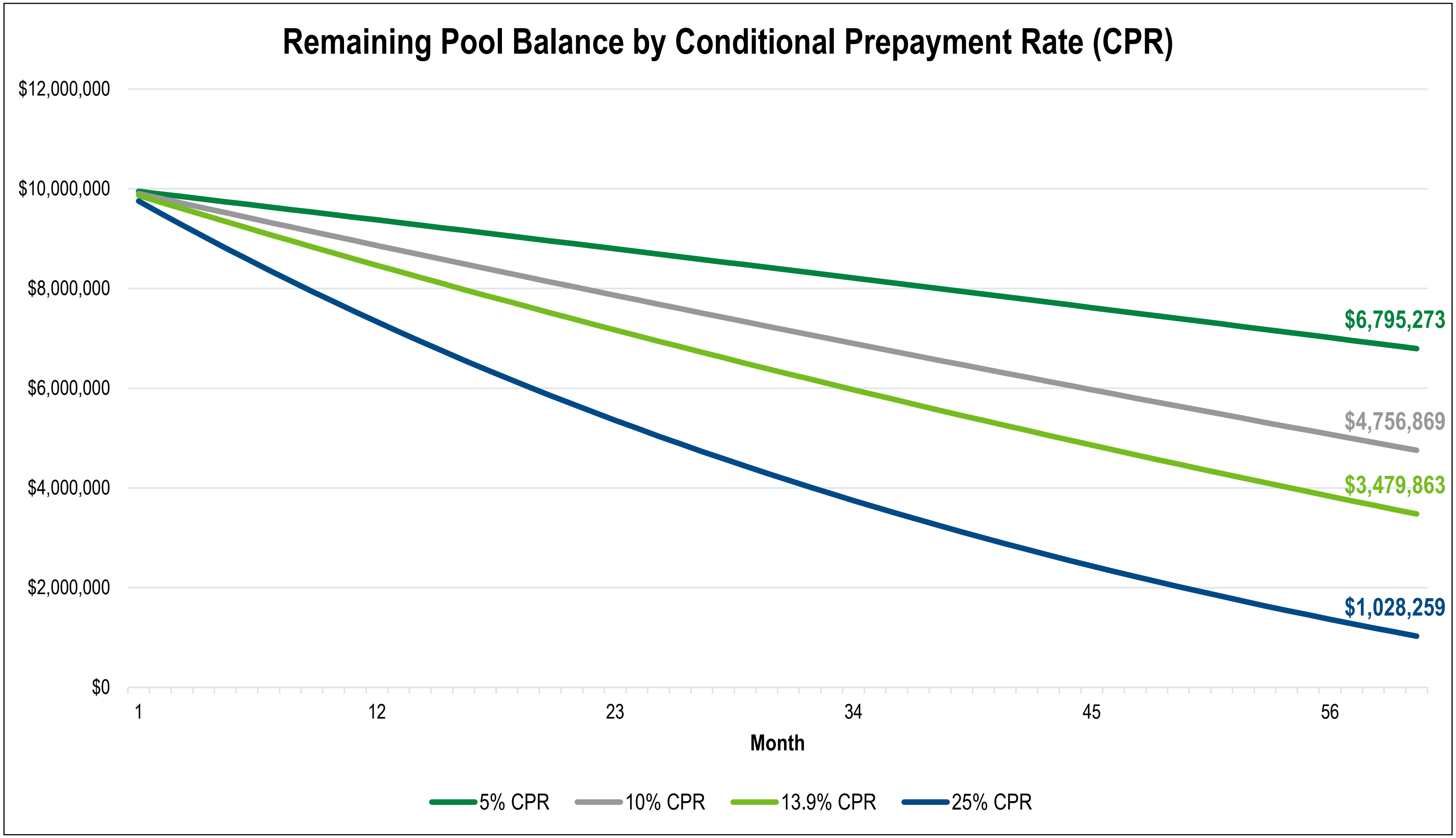
Upfront execution pulls more economics into day one; regular execution preserves more recurring CE income.



Source: FHLBank Boston

Expected Life Impacts Hold Value

The held pool earns its coupon only while it remains on the balance sheet.

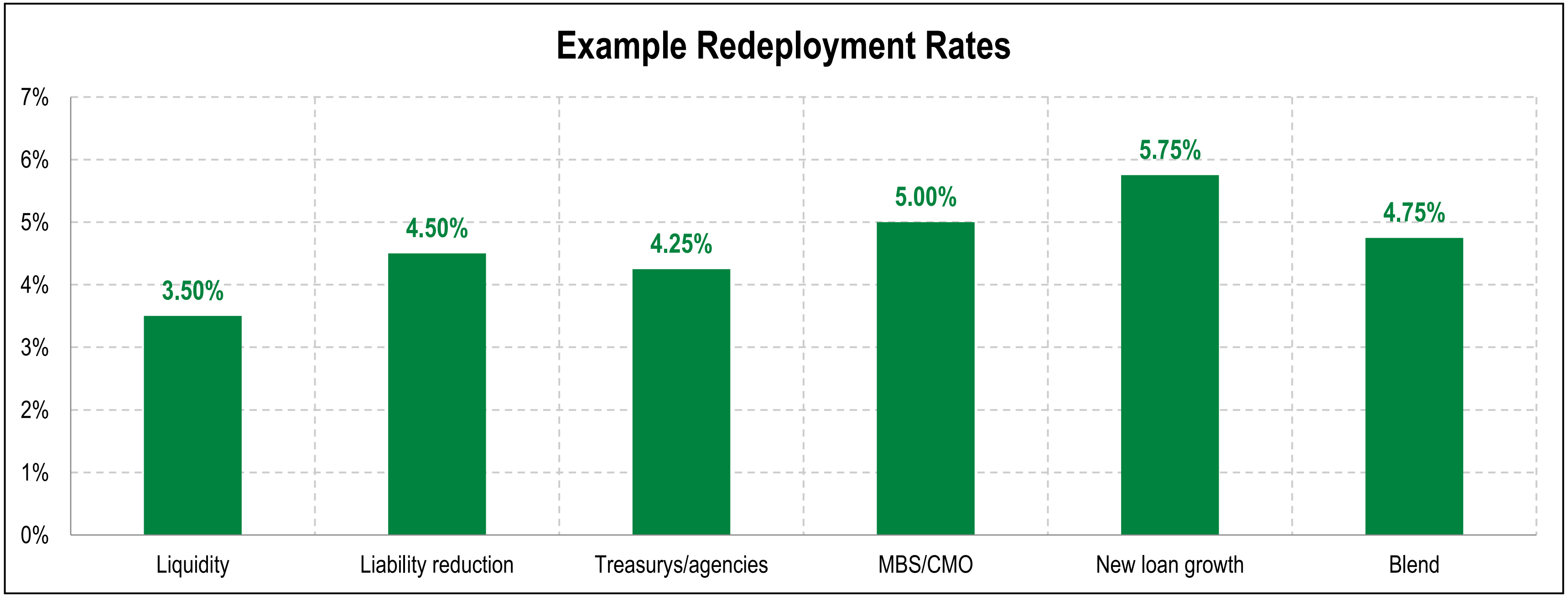


Source: FHLBank Boston

Redeploying Proceeds Efficiently

The value of selling depends on whether cash can meet a higher-value balance-sheet need.

Balance sheet need	Example value	How proceeds help
Reduce highest-cost liabilities	4.00%–5.00%	Lowers marginal funding need
Hold liquidity	3.50%	Improves flexibility
Treasurys / agencies	4.25%	Liquidity and defined cash flow
MBS / CMO	5.00%	Rebuilds mortgage exposure differently
New loan growth	5.75%	Supports relationship lending
Blend	4.75%	Balances ALCO priorities



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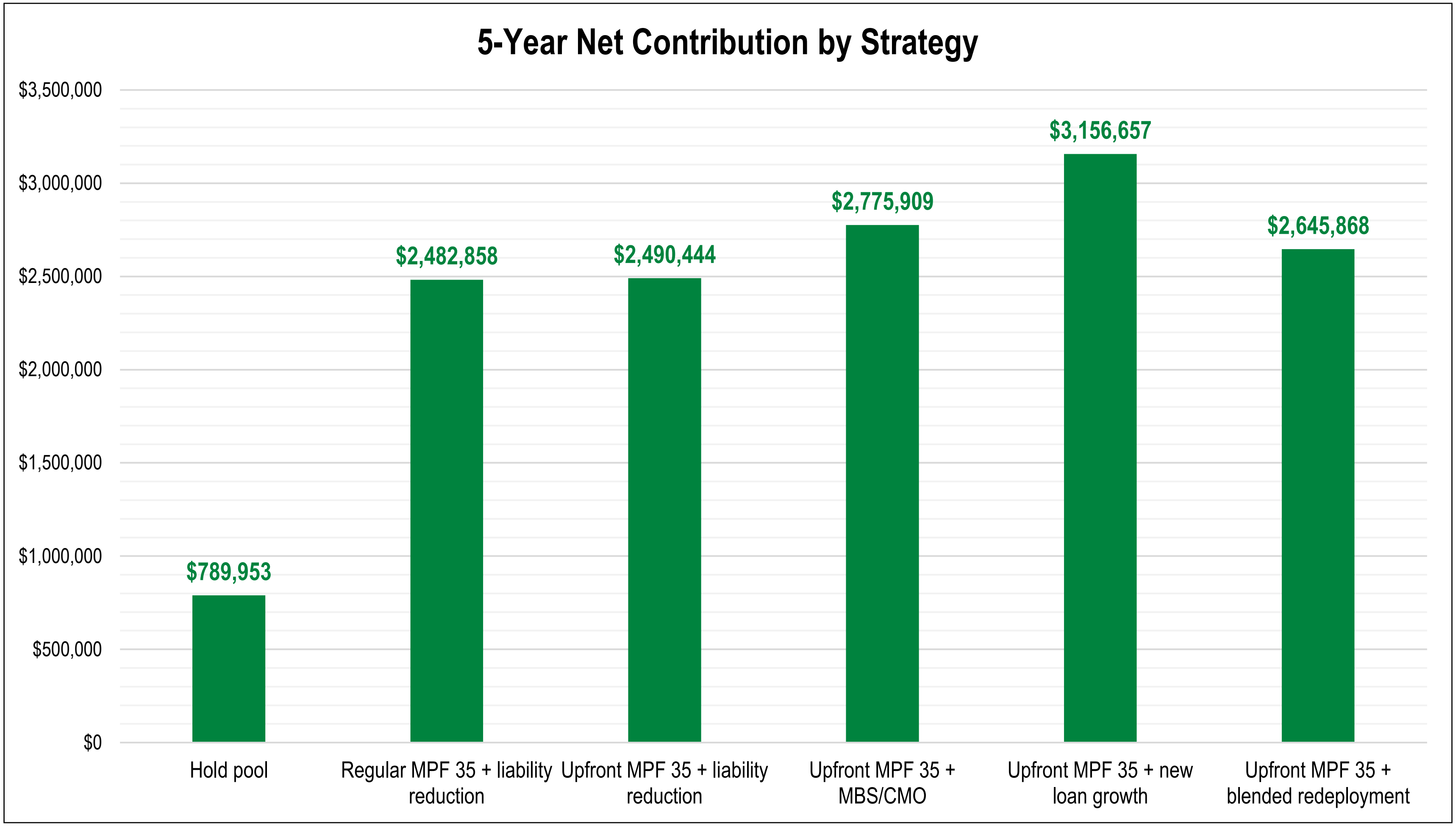
Redeployment Scenario Analysis

Holding has to beat the full MPF 35 alternative: execution, servicing, CE income, transferred risk, and redeployment.



Source: FHLBank Boston

Prepay Speeds & Redeployment Alternatives

Each cell shows the modeled 5-year advantage of selling through MPF 35 and redeploying proceeds versus holding the pool.

5-Year MPF 35 Advantage vs. Hold

CPR / Proceeds	3.50% liquidity	4.00% liability reduction	4.25% Treasurys/ agencies	5.00% MBS/CMO	5.75% new loan growth	6.50% upside case
5% CPR	$1,024,169	$1,278,000	$1,404,916	$1,785,663	$2,166,411	$2,547,158
10% CPR	$1,142,418	$1,396,249	$1,523,165	$1,903,912	$2,284,660	$2,665,407
13.9% CPR	$1,224,461	$1,478,293	$1,605,208	$1,985,956	$2,366,703	$2,747,451
25% CPR	$1,415,674	$1,669,506	$1,796,422	$2,177,169	$2,557,916	$2,938,664
35% CPR	$1,543,625	$1,797,457	$1,924,373	$2,305,120	$2,685,868	$3,066,615

Source: FHLBank Boston

Run the Analysis With Your Numbers

The sample case shows the framework. The next step is applying it to your actual production, funding stack, and ALCO priorities.

Identify the pool:

Balance, coupon, product, servicing, credit profile, and expected production volume

Size the MPF 35 execution:

Pricing, CE output, servicing income, and retained CE obligation

Compare balance sheet outcomes:

Hold, sell, or blend across CPR, funding, liquidity, and redeployment scenarios

Thank You

Tyler Buckeridge

Tyler.Buckeridge@fhlbboston.com

617-292-9766