



WHITE PAPER FROM THE **SOLUTIONS DESK**

Is Your Remittance Type Costing You Money?

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2022 Q4

When it comes to mortgages, a remittance is when a servicer collects payments due from borrowers and sends the funds, as required, to the investor. But if you retain servicing, is your remittance type selection limiting your institution's income potential?

Did you know that in addition to the benefits of retaining servicing, the remittance type you choose can also provide further price benefits? In this white paper, we will cover these topics, as well as go over the different remittance types the Federal Home Loan Bank of Chicago (FHLBank Chicago) has to offer and the different pricing between each.

Key Benefits to Retain Servicing:

- Earn servicing income of 25 (conventional) or 44 (government) basis points (bps) annualized and paid monthly
- Maintain the relationship with your customers
- Leverage FHLBank Chicago's in-house training and customer service teams
- Gain pricing advantages and flexibility through three different remittance options

Remittance Type Overview:

FHLBank Chicago offers three different remittance types: Actual/Actual (A/A), Actual/Actual Single Remittance (A/A SR) and Scheduled/Scheduled (S/S). All three have different characteristics that offer pros and cons for each. Please see below and the addendum for more information.

- **Actual/Actual (A/A)** – Offers the most competitive up front price when taking out a delivery commitment (lock). Servicers are to transfer funds to their FHLBank Chicago custodial account as P&I payments are received (minus servicing fee). The remittance frequency is the P&I account balance on the first business day of the month and additionally, whenever the P&I account exceeds \$2,500.

- **Scheduled/Scheduled (S/S)** – The upfront price is somewhere in between A/A and A/A SR. With this option, one scheduled monthly principal and interest payment is due each month on every loan along with unscheduled funds (liquidation and curtailments). Servicers advance delinquent payments and hold prepaid payments until they are due. The remittance date is the 18th calendar day of each month.
- **Actual/Actual Single Remittance (A/A SR)** – Offers the least competitive up front price. This option is geared towards servicers who are new to investor reporting or prefer a more simple process. This remittance type is similar to the A/A option above, the only difference is there is a single remittance date which falls on the 18th calendar day of each month.

Upfront Pricing Differences

For the Mortgage Partnership Finance[®] (MPF[®]) Traditional Product, on a 45-day lock for a 30-year fixed mortgage, the price differences are as follows:

Remittance Type	Note Rate	Premium *
Actual/Actual	6.75%	1.42%
Scheduled/Scheduled	6.75%	1.23%
Actual/Actual SR	6.75%	1.15%

*Pricing as of 11/17/2022

As you can see, the A/A option offers the best price. It is **significantly better by 27 bps** than the A/A S R type.

Switching Remittance

If you have an open Master Commitment (MC) and are operationally ready to make changes to your remittance type to gain pricing benefits, you can do so by:

1. Opening a new MC with the remittance type of your choice and keep previous MCs as they are. New P&I and T&I accounts may need to be opened along with Custodial Account Agreements to be executed.
2. Keep the existing MC(s) open and execute a remittance amendment to update the remittance type. With this option, you will also open a new P&I account at FHLBank Chicago and execute new P&I and T&I Custodial Account Agreements.

Please note - switching remittance types can take up to one month. For more information regarding the operational aspects of making the change, please contact your Sales Director or the MPF Sales group.

Maximizing Gain on Sale

As you saw above, A/A remittance offers the best price out of the three. If you are not set up with an A/A MC and have the operational capacity to handle the change, switching to or adding an A/A MC can immediately improve your upfront pricing, which in turn will increase your gain on sale and potentially give your customers lower rates.

If you already have an A/A MC, you are already getting the best price, however, there are still ways to maximize income:

Scenario 1: Start taking out 30-day delivery commitments instead of 45 or 60 days. Shortening the lock period in combination with the A/A remittance type will give the best up front price available to you. Not only can this improve gain on sale, but it can also increase operational efficiency as well as customer satisfaction as you can potentially **offer lower rates** and **close loans quicker** than your competition.

Scenario 2: Implement and utilize an effective pipeline hedging strategy. By doing this, you can close a pool of loans within a mandatory delivery commitment rate stack, take out a five day mandatory delivery commitment, and deliver the pool of loans into the commitment. With this option, assuming an A/A remittance type, you will receive the best price FHLBank Chicago offers to its members.

Here we can see the price differences as described in the scenarios above:

Remittance Type	Note Rate	Five Day Premium*	30-Day Premium*	60-Day Premium*
Actual/Actual	6.75%	1.72%	1.53%	1.32%
Scheduled/Scheduled	6.75%	1.53%	1.34%	1.13%
Actual/Actual SR	6.75%	1.45%	1.26%	1.05%

*Pricing as of 11/17/2022

Going from a 60-day lock to a five-day lock, as shown in the grid above can improve pricing by 40 bps.

If we look back to our first example used on page two, if you currently have an A/A SR MC, switching to A/A MC can improve pricing by 27 bps. Therefore, switching the remittance type and applying hedging strategies can potentially improve your price by **67 bps!**

Remittance Type Characteristics:

	Actual/Actual	Actual/Actual Single Remittance	Scheduled/Scheduled
Remittance Features	Funds are remitted anytime P&I payments, liquidations, and curtailments received (minus the servicing fee) exceeds \$2,500 within the P&I account. Additionally, on the first business day of each month, funds within the P&I account must be remitted.	<ul style="list-style-type: none"> - All P&I payments, liquidations, and curtailments received (minus the servicing fee) are remitted by the 18th of the following month. - If the 18th falls on a weekend or holiday, funds must be remitted by the prior business day. 	<ul style="list-style-type: none"> - All P&I payments due, plus liquidations and curtailments received (minus the servicing fee) are remitted by the 18th of the following month. - All scheduled P&I payments due are required to be remitted monthly, even if a borrower fails to make their payment. - If the 18th falls on a weekend or holiday, funds must be remitted by the prior business day.

To Learn More

Contact your Sales Director to learn more about the benefits of the different MPF products and remittance types.

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