Selecting the Issue Date and Pass-through Rate

After obtaining a pool purchase contract, your next step is to select the issue date and pass-through rate for each MBS pool you plan to deliver to Fannie Mae. The issue date is the first day of the month on which securities backed by an MBS pool are issued. The pass-through rate is the interest rate of the securities that are issued.

When making these decisions, you will want to take into account what's happening in your mortgage pipeline as well as in the primary and secondary mortgage markets.

In addition, you will want to keep in mind two factors:

- MBS fixed-rate pass-through rates are usually on the whole or half percent, although occasionally market opportunities exist for quarter coupon fixed-rate pass-throughs.

- The spread between the MBS pass-through rate and the individual mortgage note rates must be sufficient to support both the minimum required servicing fee rate and the contractual guaranty fee rate.

In practice, you may find it easiest to perform this step and the next step simultaneously.

Step 1. Calculate optimal mortgage note rate using the following formula:

Pass-through rate
+ Servicing fee rate
+ Guaranty fee rate per contract
= Optimal mortgage note rate (no buyups or buydowns needed)

Step 2. Identify mortgage note rates that are eligible for pooling using buyups and buydowns by making the following comparisons:

- If a mortgage note rate is lower than the optimal mortgage note rate but not less than the pass-through rate + servicing fee rate, a buydown is appropriate.

- If a mortgage note rate is greater than the optimal mortgage note rate by up to .25 percent, a buyup is appropriate.