COLLATERAL VERIFICATION REVIEWS
FREQUENTLY ASKED QUESTIONS

NEW OR UPDATED ITEMS FOR 2016

- **Powers of Attorney (Florida & Georgia)**
  The Bank is announcing a new collateral eligibility requirement for loans closed under power of attorney and secured by real estate located in the states of Florida and Georgia. This change will be effective immediately for all loan collateral reported to the Bank.

  - For Florida properties securing loans that were closed under power of attorney, the power of attorney documents must be filed with the clerk of court in the county where the property is located and recorded with the real property records prior to reporting the associated loan collateral to the Bank.
  - For Georgia properties securing loans that were closed under power of attorney, the power of attorney documents must be filed with the clerk of court in the county where the property is located and recorded with the real property records prior to reporting the associated loan collateral to the Bank.
  - These new Bank collateral eligibility requirements pertain specifically to loans secured by real property located in the states of Florida and Georgia that were closed using a power of attorney. The Bank is making this change to conform to standard practices related to powers of attorney in the state of Georgia and to the Florida Power of Attorney Act of 2011.

- **Collateral Eligibility Clarification for Loans secured by Restaurants**
  The Bank accepts as eligible commercial real estate collateral stand-alone restaurants that are nationally ranked and recognized as one of the top 10 restaurants based on either sales revenue or units operated. For the purposes of collateral eligibility, if the real estate collateral securing the loan includes only restaurant collateral, then it is considered to be stand-alone restaurant collateral and would therefore be limited to those indicated on the Bank's Eligible Restaurant List. If the real estate collateral securing the loan includes other eligible real estate collateral in addition to the restaurant collateral, then the restaurant collateral is **not limited** to the Bank's Eligible Restaurant List in order to be considered eligible collateral.

OTHER IMPORTANT REMINDERS

- **HELOC/Home Equity Loans**
  HELOCs or second mortgage loans with commitments of $250,000 or greater require post-closing lien verification documentation dated on or before the Collateral Verification Review (CVR) as-of date. Therefore, post-closing lien verification documentation dated after the CVR as-of date **will not** be accepted to cure lien position exceptions.

- **Mortgage Lien Protection Policies**
  The Bank does not accept lien protection insurance policies or service agreements in lieu of required lien verification for HELOCs/second mortgages **or** in lieu of post-closing lien verification for 1-4 residential mortgages. The insuring provisions of these products typically do not require public

record searches to identify outstanding liens filed against the properties securing the loans and typically provide coverage for loans in lien positions inferior to the Bank's collateral requirements.

- During the CVR, for any loans in the sample that are covered by a lien protection policy, shareholders will be asked to provide lien searches, attorney opinions, or title insurance policies to demonstrate that the loans are in the lien position required by the Bank for that portfolio.
- For HELOCs or second mortgages (included in the CVR sample and covered by a lien protection policy), documentation submitted to prove lien position may be obtained after the CVR as-of date **if** the HELOC or second mortgage loan does not equal or exceed $250,000.
- For 1-4 residential loans (included in the CVR sample and covered by a lien protection policy), documentation obtained by the shareholder to prove lien position that is dated after the CVR as-of date will not be permitted. These loans will be counted as exceptions if acceptable post-closing lien verification documentation dated on or before the CVR as of date is not available.
- Shareholders may continue to use mortgage lien protection insurance policies to mitigate any future losses to their institution due to lien position, but may not rely upon them as proof of lien position for collateral reported to the Bank.

- **Original Notes**
  - The Bank requires that the original note exist and be under the control of the shareholder or its agent. If the shareholder has lost or destroyed the original note, the related loan will not be accepted as eligible collateral.
  - Imaged copies of original notes or lost note affidavits will not be accepted as eligible collateral.
  - Loans originated as electronic notes will not be accepted as eligible collateral.

GENERAL

What is a Collateral Verification Review (CVR) and what is its purpose?

The CVR is a physical review of a statistical sample of a shareholder's reported and pledged loan collateral. FHLBank Atlanta verifies that the loans are eligible in accordance with its collateral eligibility guidelines. These reviews are conducted on-site at the shareholder's offices.

Will the shareholder be charged for the 2016 collateral review?

No.

This document has been created to provide guidance. It does not replace Credit and Collateral Policy. If you have specific questions or comments, please contact your Collateral Relationship Specialist for further information.

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Who will be performing our annual CVR?

- Each CVR is led by a Bank-employed Collateral Analyst who acts as the review team leader and primary shareholder contact during the onsite portion of the review.
- Bank Collateral Analysts may be assisted by contractors from third-party review firms. The selected third-party review firms are experienced and well-qualified. Each third-party review firm used by the Bank goes through a rigorous annual review and qualification process. Their work product is periodically and randomly reviewed for completeness and accuracy. Third-party review firms are subject to Bank confidentiality agreements that cover both the Bank and the shareholder.
- All follow-up activities including the review of follow-up documentation to cure exceptions and extrapolation rate calculations are performed by Bank staff.

If loan portfolios are reported for the first time in 2016, will the shareholder be subject to a collateral review in 2016?

It is possible, but it is more likely that the first collateral review would be scheduled for 2017. The timing of the first review of loan collateral is dependent on when the loans were first reported and when the shareholder actually began to rely on loan collateral to secure advances.

TIMING AND SELECTION OF CVRs

Who is subject to a CVR?

- CVRs are conducted annually using risk-based selection criteria.
- Shareholders are generally reviewed in one, two, three or four-year cycles.
- Shareholders in delivery typically are excluded from onsite CVRs but periodically may be subject to remote CVRs conducted at the Bank's Atlanta office at the Bank's discretion. The CVR selection requirements discussed below do not apply to shareholders in delivery.
- Shareholders reviewed annually include:
  - Top 30 largest borrowers
  - Shareholders with credit scores of 10
  - Shareholders with credit scores of 9
  - Shareholders who remediated at least one portfolio during the prior year
  - Shareholders exceeding 50% LCV in subprime and/or nontraditional loans originated before July 10, 2007
  - Shareholders relying on collateral under a specific pledge
  - Shareholders relying on loan collateral with no prior review
  - Shareholders that have made a special request to undergo a CVR out of cycle
  - Shareholders with credit availability greater than 30% of assets
  - Capital Markets shareholders reporting loan collateral

  - Credit unions with less than $50 million in assets or less than $5 million in net worth that are receiving LCV for reported loan collateral
  - Banks with less than $20 million in assets or less than $2 million in equity capital that are receiving LCV for reported loan collateral
- Shareholders identified as Regional Accounts :
  - Regional Account shareholders reporting loan collateral that has not been previously reviewed will be selected for a current year CVR regardless of reliance on loan collateral
  - Regional Account shareholders relying on loan collateral will be required to undergo a CVR every other year
- Shareholders in the three-year cycle include:
  - Shareholders with credit scores 1-5 with high exposure not included in the one-year cycle
  - Shareholders with credit scores 6-8 not included in the one-year cycle
- Shareholders in the four-year cycle include:
  - Shareholders with credit scores 1-5 with lower exposure not included in the three-year cycle

When will the shareholder be notified that they are scheduled for a CVR?

If selected, the Bank will notify the shareholder in February 2016. These reviews are scheduled throughout the year by phone with a member of the Collateral staff. The Bank will select a date for the review, but will work with the shareholder to select an alternative date if the date selected conflicts with visits from examiners or auditors. In some instances, shareholders may be selected for a CVR after February. However, those shareholders will receive a phone notification at least four to six weeks prior to the CVR date.

How does the shareholder prepare for a CVR?

Prior to the "as of date" selected for the review, a collateral coordinator will e-mail the shareholder a confirmation letter. This e-mail will include the date of the review and the portfolios to be reviewed. Additionally, the Bank will request "as of" date Qualifying Collateral Reports (QCRs) and trial balances of eligible loans for each portfolio to be reviewed plus a completed Preliminary Questionnaire. The Bank will provide specific due dates for the requested information. It is important to meet the due dates so that the Bank is able to get a sample loan listing back to the shareholder with ample time to prepare for the review.

What will the reviewers need while they are onsite?

They will need work space in which to perform the review and immediate access to all requested loan files, reports, etc. When the list of sample loans to be reviewed during the CVR is sent, the Bank will also include loan file checklists. The majority of the information requested on the loan file checklists will be contained in the credit and collateral files. Supplemental data such as loan servicing screen prints, a schedule of classified loans, and a schedule of employee loans also will be needed. Additional items may be requested as the need arises.

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Which portfolios will be reviewed during a CVR?

All loan portfolios pledged and reported on a Qualifying Collateral Report (QCR) or that are specifically pledged will be reviewed.

SAMPLE SELECTION

Who selects the sample for a CVR?

The Bank selects random samples from the shareholder's eligible loan trial balances submitted for the "as of" date. The total dollar amount of the loans on the eligible loan trial balances must match the total dollar amount of the net eligible line item on the QCRs for the same "as of" date. Shareholders specifically pledging loan collateral are not required to submit a QCR. The Bank will select loan samples for these shareholders from the loan listing submitted for the "as of" date.

What sample size is used for a CVR?

Generally, the sample size is 50 loans per portfolio reviewed. If the pledged portfolio consists of fewer than 50 loans, the entire population of loans will be reviewed.

When will replacement loans be used during the CVR?

The Bank will provide listings of sample loans and replacement loans. If a sample loan is paid off after the "as of" date but before the start of the CVR, the analyst conducting the CVR will select a replacement loan file from the sample listing to review in lieu of the paid off sample loan. While it is not necessary to provide all of the items on the Loan File Checklist for loans paid off after the "as of" date, the shareholder must provide evidence of the pay-off from the loan system.

ELIGIBLE LOAN TRIAL BALANCE/QCR

What information is required on the loan trial balance?

The list should include only eligible loans. The information required for the loan trial balance is loan number, current unpaid principal balance, loan type code, and origination date. Please refer to the Trial Balance Preparation/Loan Type Codes document provided as an attachment to the As-Of Date Notification Letter for detailed instructions and information concerning the loan type codes. Every loan reported on the loan trial balance must have a loan type code. The loan trial balance is used to confirm that the Bank has the correct eligible population of loans and to provide information necessary to select the sample.

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What format can be used to prepare the loan trial balance?

An Excel template for the loan trial balance is provided by the Bank as an attachment to the As-Of Date Notification Letter. Use of this template is recommended. If a shareholder institution elects not to use the loan trial balance template provided, the loan trial balance must be submitted in an Excel spreadsheet so that it can be run through the sample generator software. The loan trial balance should not contain any special formatting such as subtotals or other formulas, or any additional columns of data beyond those specified. The loan trial balance must contain the following columns of data in the order indicated for each loan reported: (1) Loan Number, (2) Current Unpaid Principal Balance, (3) Loan Type Code, and (4) Origination Date.

Why is it important to prepare a QCR that coincides with the "as of" date of the collateral review?

Each QCR acts as a certification to the Bank that the accompanying loan trial balance contains only eligible loans. The samples are selected from the eligible list of loans that is provided by the shareholder. If ineligible loans are included in the trial balances, it is possible that they will be selected and will cause a high exception rate for the review.

Who should certify the QCR?

An authorized officer at the shareholder institution is required to certify the QCR.

Where should the QCRs and Loan Trial Balances be sent?

The QCRs should be submitted online via FHLBAccess®. The loan trial balances should be submitted via e-mail to the collateral coordinator identified in the As-Of Date Notification Letter.

FOLLOW UP AND FINAL RESULTS OF REVIEW

How will the results of the review be conveyed?

Within days of the completion of the physical review of the files, the Bank will send a cover letter and preliminary review results to the shareholder. These documents will provide summary and loan-level detail concerning the exceptions noted during the review. The shareholder will have 10 business days to respond to the loan exceptions noted during the review. The Bank will strictly enforce the 10 business day requirement. If an extension is required due to unforeseen circumstances, a request must be made in writing (e-mail) to your Collateral Review Coordinator. Please keep in mind that the review will be automatically closed at the end of the 10 day response period unless the Bank is notified.

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How should the shareholder respond to the individual loan level exceptions noted in the preliminary review summary?

The shareholder will send the Bank an acknowledgment if they agree with the findings. If the shareholder believes that the exceptions can be cleared, copies of loan documentation should be provided to clear the exceptions. Written explanations will not take the place of documents that were not found during the review. For each exception noted during the review, please provide a written response that either concurs with the exception, or indicates that documentation is being submitted to clear the exception.

What happens after the shareholder responds to the preliminary collateral review summary?

The Collateral Review Coordinator will review the submitted documents to determine if they are sufficient to clear the exceptions. Unaddressed or unresolved exceptions become final exceptions and are included in the final exception rate.

When is the review closed and finalized?

The review is closed and finalized after the shareholder's response is evaluated and the collateral review coordinator has made the appropriate adjustments for loans cleared. The Bank will send a final letter and review results summary to the shareholder at that time.

What is the final exception rate?

The final exception rate equals the total number of loans with exceptions divided by the total number of loans reviewed.

How is the final extrapolation rate determined?

The final extrapolation rate is equal to the final exception rate. Each collateral portfolio reviewed will have a final extrapolation rate.

Can the shareholder remediate the final exception rate or final extrapolation rate after the review has been closed?

The final exception rate cannot be remediated. Shareholders who wish to lower their extrapolation rates should contact their Collateral Relationship Specialist or Manager to discuss the requirements for remediating the extrapolation rate.