COLLATERAL SERVICES
FREQUENTLY ASKED ELIGIBILITY QUESTIONS

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 FHLBank Atlanta's Collateral Services group for further information.

Frequently Asked Eligibility Questions

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Collateral Services
Frequently Asked Questions

NOTES

A note should be properly executed and legally recognized as a debt obligation between the financial institution and borrower. For the loan to be eligible, the note must be secured by a mortgage, deed of trust, or deed to secure debt on eligible real property.

1. **Does FHLBank Atlanta (the Bank) accept imaged or copied notes as collateral?**

   No. The original ink-signed note must exist and be in the control of the financial institution or its agent. If the financial institution has lost or destroyed the original note, the associated loan(s) cannot be reported as eligible collateral.

2. **Does the Bank accept notes with electronic signatures as collateral?**

   No. The Bank does not accept loans with notes that were electronically signed. If the financial institution has originated loans with electronic signatures, these loans cannot be reported as eligible collateral.

3. **If the original note has been modified, will the Bank accept a copy of the note modification?**

   If the original note has been modified, the original note modification document must be provided. If the original note has been modified multiple times, the Bank will accept the original ink-signed note, all related copies of the intervening note modifications, and an original of the current note modification.

4. **Does the Bank accept purchased loans?**

   Yes. If the loan is originated by another institution either through an asset purchase or merger, the proper legal documents should be provided. For example, if a shareholder purchases loans from a mortgage originator, the appropriate note must be endorsed to the shareholder. Please note that the Bank does not accept purchased participations.

5. **Is endorsement of the note sufficient documentation?**

   Yes, provided that it is properly executed by the seller or in blank to the shareholder.

6. **Does the Bank accept loans that are open-ended or partially funded as eligible residential, multifamily, or commercial loan collateral?**

   No. Except for HELOCs, notes reported as collateral must be both closed-ended and fully funded. HELOCs may be partially funded.

7. **Is a construction note eligible if it is fully funded with a completed structure?**

   Yes. Evidence of completion per plans or specifications or as appraised must be included in the file.

BORROWING RESOLUTIONS

Non-natural borrowers must provide a borrowing resolution that specifically identifies the authorized signers for particular loan transaction(s).

1. What is the definition of a loan to a non-natural borrower?

Loans to non-natural borrowers are loans to legal entities such as corporations, LLCs, partnerships, or any other business entity. All such entities are required to submit an executed borrowing resolution that specifically authorizes certain individuals to sign and incur debt on behalf of the borrowing entity. The resolution can be dated after the date of the loan transaction, but must be dated on or before the Collateral Verification Review "as of" date to be eligible. Borrowing resolutions that are not dated will not be accepted as eligible documentation.

2. What alternative documentation can be submitted in lieu of a borrowing resolution?

The Bank will accept a legal opinion from the borrower's counsel that assures proper corporate authority actions have been taken, or a secretary's certificate that indicates the resolutions were passed on a certain date consistent with the date of application or term sheet date and the closing date. In addition, corporate bylaws or operating agreements that provide specific language on the borrowing abilities of individuals may be provided.

MORTGAGES, DEEDS OF TRUST, DEEDS TO SECURE DEBT

An eligible mortgage, deed of trust, or deed to secure debt must be executed properly in accordance with applicable state law. Copies of mortgages are acceptable, but the recording information must be legible. All mortgage modifications (if applicable) must be properly executed. The mortgage amount and maturity date must equal or exceed the outstanding unpaid principal balance and stated maturity of the applicable note.

1. Does the Bank accept mortgages, deeds of trust, or deeds to secure debt that include a future advance clause?

If the mortgage documents include a future advance clause that does not violate any applicable state laws, the Bank will accept the mortgage. Additionally, an unpaid principal balance amount that exceeds a defined mortgage amount would be allowable in situations where a future advance clause exists.

2. Does the Bank accept new originations where the mortgage has been sent out for recordation, but has not been returned, such that no definitive evidence of recordation is available?

The Bank will accept such a mortgage only if the loan was originated within the last 12 months. If the CVR as of date is more than 12 months after the closing date, the loan is ineligible.

3. Does the Bank accept mortgages without an expiration date?

Yes, as long as the failure to include an expiration date does not violate state law.

4. Does the Bank accept loans where the mortgage is in the name of another entity (lender)?

As long as the related mortgage is properly assigned to the shareholder, the Bank will accept the loan as eligible collateral.

5. What about instances where the borrower differs from the owner of the mortgaged property?

As long as the property owner executes the mortgage, the loan will be eligible and no assignment is necessary.

6. If a mortgage is executed by a power of attorney, does the power of attorney need to be recorded?

Certain jurisdictions require a power of attorney to be recorded and some also require the power of attorney to be recorded in conjunction with the mortgage. The Bank requires evidence that the power of attorney has been properly recorded in accordance with each applicable state jurisdiction.

7. When do note modifications need to be recorded?

If a note modification agreement adds new substantive provisions to the mortgage, deed of trust or deed to secure debt, it is also a mortgage amendment and not just a change to the note terms. All such modifications should be recorded in the real property records where the subject property is located. An example of a substantive new provision created by a note modification agreement would be the addition of a future advance clause where none existed in the original mortgage, deed of trust or deed to secure debt.

8. Do assignments of a mortgage, deed of trust, or deed to secure debt require evidence of recordation?

The Bank requires evidence of recordation for all copies of assignments of mortgages. However, if the shareholder is able to provide the original version of the assignment, evidence of recordation is not required. The same rule applies for assignment of bulk purchases. Copies of bulk purchase assignments will need to show evidence of recordation. Original versions, however, do not require such evidence.

LIEN POSITION VERIFICATION

The Bank requires verification that the mortgage be in first or second lien position, depending on the type of collateral being pledged.

Residential, Multifamily, and Commercial

1. What is acceptable documentation of lien position?

Final title insurance policies, attorney opinions, and lien searches are acceptable documentation when sufficient information is obtained to provide a clear picture of lien position. Post-closing lien verification is required for residential, multifamily, and commercial real estate mortgages. The Bank accepts mortgages in first lien position within the residential portfolio and mortgages in first and second lien position within the commercial and multifamily portfolios. In order for a second mortgage loan to be eligible within the commercial and multifamily portfolios, the following criteria must be met:

- The shareholder must own both the first and second mortgages and the two mortgages must be secured by exactly **the same property** and issued to the **same borrower**.
- Combined LTV of both loans must be less than or equal to 85% (50% for places of worship)
- Both loans must meet all other Bank eligibility requirements
- Shareholders must execute a short addendum to their Advances Agreement to place a Bank lien on the second mortgage loans before they can be reported.

The lien search should be conducted on the legal description or physical address of the property. Searches conducted in the name of the borrower are not acceptable, except in those states or counties where indexing is available only for the grantor/grantee because grantor/grantee searches will not identify liens filed against the property by other individuals or entities. Searches conducted in states with only grantor/grantee indexes must include searches of tax records and clerks of court records in order to identify judgments, tax liens, and other issues that impact the lien position of the property.

2. Will the Bank accept pre-closing lien verifications for residential, multifamily and commercial loans?

For residential, commercial real estate, and multifamily loans, post-closing lien verification is required.

3. If a shareholder only has evidence of preliminary lien verification obtained prior to origination six years ago and decides to pull a lien search three months prior to the as-of date of the most recent CVR, is the loan eligible?

Yes, post-closing lien searches obtained prior to the as-of date of the review may be used to prove that the mortgage is in the proper lien position. Lien searches pulled <u>after</u> the as-of date for the most recent CVR <u>cannot</u> be used to cure lien exceptions identified during the review for residential, multifamily and commercial loans, and for HELOCs/Seconds ≥ $250,000.

LIEN POSITION VERIFICATION (continued)

4. Is the loan eligible if the final title policy has not been received from the title insurance company on the as-of date of the most recent CVR?

Preliminary title policies are acceptable up to 12 months after the origination date. However, if the preliminary title evidenced a prior lien that would put the subject mortgage in less than the required lien position, the following documents will be considered acceptable evidence of satisfaction of the prior lien:

1. A final executed HUD-1 (or final settlement statement used in lieu of a HUD-1) showing the payoff to the prior lien holder accompanied by a payoff letter dated within 30 calendar days of the settlement date that can be reconciled to the payoff amount indicated on the final executed HUD-1, and either of the following additional supporting documents:

   - A wire transmittal that reconciles to the payoff amount indicated on the final executed HUD-1 (or the equivalent final settlement statement)
   - A copy of a check that reconciles to the payoff amount indicated on the final executed HUD-1 (or the equivalent final settlement statement)

2. A final executed HUD-1 (or final settlement statement used in lieu of a HUD-1) showing the payoff to the prior lien holder accompanied by any one of the following:

   - A recorded copy of the Release/Satisfaction, which may have been recorded after the as-of date (when the final executed HUD-1 or equivalent final settlement statement evidences that the actual payoff occurred *prior* to the as-of date)
   - An unrecorded copy of the Release/Satisfaction, which may have been executed after the as-of date (when the final executed HUD-1 or equivalent final settlement statement evidences that the actual payoff occurred *prior* to the as-of date)
   - A paid in full letter from the prior lien holder acknowledging satisfaction of the debt.

5. Will a post-closing lien search cure an exception caused by the failure to receive a final title policy within 12 months of origination?

If the final title policy has not been received within 12 months, the shareholder may provide a post-closing lien search pulled before the CVR as-of date.

6. What if, due to preparer error or timing, the post-closing lien verification document indicates that the mortgage is in 2nd or 3rd position due to a prior lien on the property? Can this exception be cured?

The shareholder can prove that the prior lien was paid off by submitting a satisfaction or cancellation recorded before the as-of date, or an updated lien search performed before the as-of date of the CVR. HUD-1s, settlement statements, and copies of cancelled checks may not be used as proof of satisfaction if the loan origination date was greater than 12 months from the as of date. Lien searches pulled after the as-of date of the most recent CVR cannot be used to cure this exception for the residential, multifamily or commercial portfolios or HELOCs/2nds ≥ $250,000.

7. Why will the Bank not accept lien searches pulled after the as-of date in the above examples?

Bank policy requires 1st lien position for the residential portfolio, and 1st and 2nd lien position for the multifamily and commercial portfolios. On the as-of date of the CVR, the shareholder provides loan listings matching the Qualifying Collateral Reports and makes representations that all of the reported loans are eligible. If acceptable post-closing verification of the required lien position does not exist on the as-of date, the loan is not eligible for inclusion in the shareholder's loan listing or QCR and should be flagged as a CVR exception.

HELOCS/2nd Mortgages

8. What lien positions are accepted as eligible collateral?

1st and 2nd lien positions only.

9. What type of lien verification will the Bank accept for HELOCs/2nds?

HELOCS/2NDS ≥ $250,000

- If the amount of the loan/line is **$250,000 or greater**, **post-closing verification is required** that demonstrates that the recorded mortgage is a first or second lien. The post-closing verification can be evidenced by a final title insurance policy, an attorney's opinion, or a post-closing lien search conducted on the property description (please note that HELOCs/2nd mortgages ≥ $250,000 have the same lien verification requirements as residential, multifamily, and commercial loans).

- Post-closing lien verification for HELOCs/2nd mortgages ≥ $250,000 may not be used to clear a lien position exception cited during a CVR if the lien verification document(s) was created or dated after the as-of date of the CVR.

HELOCS/2NDS < $250,000

- Preliminary or pre-closing lien searches are acceptable for HELOCs/2nds < $250,000 if all of the following requirements are met:

  1. Lien searches must be conducted no more than 45 days prior to the origination date.
  2. The lien search is a search of the public records in the county and state in which the property is physically located. The lien search is conducted on the legal description or physical address of the property. Searches conducted in the name of the borrower are not acceptable, except in those states or counties where indexing is available only for the grantor/grantee, because they will not identify liens filed against the property by other individuals or entities. Searches conducted in states with only grantor/grantee indexes must include searches of tax records and clerks of court records in order to identify judgments, tax liens, and other issues that impact the lien position of the property.
  3. The shareholder obtains borrower affidavits representing that the liens disclosed in the lien search are the only liens outstanding as of the application date and that no other loans secured by the underlying property are in-process.

- If any of the above preliminary requirements are not met, post-closing lien verification for HELOCs/2nd mortgages < $250,000 may be obtained after the as-of date of the CVR and used to clear the preliminary exception(s) if a first or second lien position is confirmed.

LIEN POSITION VERIFICATION (continued)

10. What documentation can be used in lieu of a borrower's affidavit?

- A borrower signed and dated application with a section titled "borrower's affidavit" incorporated within the application is acceptable in lieu of a separate borrower's affidavit. A borrower signed and dated application is acceptable in lieu of a separate borrower's affidavit if the application details the current mortgage and any other liens against the property; and if it includes, at a minimum, statements with language similar to the following:

  1. The information provided in this application is true and correct as of the date set forth opposite my signature and that any intentional or negligent misrepresentation of this information contained in this application may result in civil liability, including monetary damages, to any person who may suffer any loss due to reliance upon any misrepresentation that I have made on this application, and/or in criminal penalties including, but not limited to, fine or imprisonment or both under the provisions of Title 18, United States Code, Sec. 1001, et seq.

  2. The loan requested pursuant to this application (the "Loan") will be secured by a mortgage or deed of trust on the property described herein.

  3. The Lender and its agents, brokers, insurers, servicers, successors and assigns may continuously rely on the information contained in the application, and I am obligated to amend and/or supplement the information provided in this application if any of the material facts that I have represented herein should change prior to closing of the Loan.

11. What if a borrower's affidavit is missing from the file and the language in question 10 above was not contained within the application?

Borrower affidavits missing from the file may be provided during the follow-up period if they were signed on or before the date the loan was closed. The shareholder may also provide a post-closing lien search indicating that the mortgage is in 1st or 2nd position if the loan amount is less than $250,000. The lien search may be dated after the as-of date, but must be provided no later than the end of the CVR follow-up period. Lien searches obtained after the as-of date may be used to cure exceptions only for loan amounts less than $250,000 within the HELOC/2nd mortgage portfolio.

12. How must the satisfaction of a prior lien be documented for HELOCs/2nd mortgages?

If during the course of a Collateral Verification Review (CVR) any of the documentation discussed above indicates the presence of a prior lien that would make the subject loan a 3rd or 4th lien, the shareholder may cure the exception by submitting any of the following items during the on-site portion of the review or during the post-review follow-up period:

- A copy of the satisfaction or cancellation for the prior lien recorded on or before the as of date.
- A post-closing lien search (after the as-of date) conducted on the property description that indicates that the prior lien(s) has been satisfied **if** the loan amount is less than $250,000.
- HUD-1s, settlement or closing statements, and copies of checks may **not** be used as proof of satisfaction if the loan origination date was greater than 12 months from the as of date.

LIEN POSITION VERIFICATION (continued)

13. If the preliminary lien search was dated > 45 days prior to loan closing, can the exception be cured?

Yes, the exception can be cured (for HELOCs/2nds <$250,000) if the shareholder provides a post-closing lien search that indicates the mortgage is in 1st or 2nd position. The lien search may be dated after the as-of date, but must be provided no later than the end of the CVR follow-up period. Post-closing lien searches for HELOC/2nd mortgage ≥ $250,000 that are pulled or dated after the as of date may not be used to cure exceptions cited during the CVR.

Post Closing Lien Searches

14. What are the Bank's requirements for post-closing lien searches?

Post-closing lien searches should meet the following requirements:

- The lien search should be conducted on the legal description or physical address of the property. A search conducted in the name of the borrower is not acceptable, except in those states or counties where loan indexing is available only for the grantor/grantee, because the search will not identify liens filed against the property by other individuals or entities. Searches conducted in states with only grantor/grantee indexes must include searches of tax records and clerks of court records in order to identify judgments, tax liens, and other issues that impact the lien position of the property. A post-closing lien search must identify all open and active liens filed against the property. The search must not be limited to real estate transactions, but include all liens and judgments filed against the property.
- Post-closing lien searches should be conducted, at a minimum, up through the date that the subject loan was recorded. During a CVR, the reviewer should be able to see the recordation of the subject loan on the lien search.
- Any post-closing lien search not meeting the above requirements cannot be used to cure a CVR lien position exception.

15. Are bring-down (also called date-down) lien searches acceptable evidence of post-closing lien verification?

Bring-down lien searches are used in conjunction with a preliminary lien search. The bring-down search starts the day after the "searched through" date of the preliminary lien search and extends, at a minimum, through the recording date for the loan. The product is used to identify any additional, or intervening, filings against the property during the gap period between the underwriting of the loan and the recording of the mortgage. Both the preliminary lien search and bring-down lien search must be provided in order to meet the Bank's lien verification requirements. However, please note that there may be liens noted on both the preliminary and bring-down search that indicate a 3rd or 4th lien position when the reports are read together. Shareholders can prove that the prior lien(s) were paid off by submitting a satisfaction or cancellation recorded before the as-of date, or an updated lien search performed before the as-of date of the CVR. Updated lien searches pulled after the as of date may be provided only for HELOC/2nd mortgages with line commitments less than $250,000.

Mortgage Lien Protection (Loss Coverage) Policies and Service Agreements

Mortgage lien protection insurance policies or service agreements are no longer accepted by the Bank as proof of lien position in lieu of title insurance policies, attorney opinions, or lien searches of the public records.

16. Why has the Bank decided not to accept lien protection policies and service agreements as alternative proof of lien position?

- The insuring provisions of these products typically do not require public record property searches to identify outstanding liens filed against the properties securing the loans.
- These products do not specify that only 1st and 2nd lien positions are insured; they typically provide coverage for loans in lien positions inferior to the Bank's Collateral requirements.
- Shareholders may continue to use these products to mitigate any future losses to their institutions due to lien position, but may not rely upon them as proof of lien position for collateral pledges. The Bank no longer reviews and approves the policies and agreements for eligibility.

17. Will the Bank accept preliminary lien searches of the property that are prepared by the insurance provider under the provisions of the policy or agreement?

The Bank will accept preliminary lien searches prepared by the provider if they meet the requirements noted in question 9 above.

Other

18. What about non-mortgage related liens? Are these considered in the eligibility requirements?

Non-mortgage liens such as tax liens or mechanic's liens that are in advance of the shareholder's lien are disqualifying factors for first mortgage loans (or second mortgages with other prior liens).

19. What is a PACE loan?

Property Assessed Clean Energy (PACE) is a government initiative that allows property owners to finance energy efficient and renewable energy projects for their homes and commercial buildings. Examples of such projects include insulation, weather sealing, new windows, heating and cooling systems and solar installation. Improvements are financed and repaid through special tax assessments for up to 20 years. If the property is sold during the repayment period, the repayment obligation is transferred automatically to the next property owner via the special tax assessment.

20. How will the Bank check for PACE loans?

PACE loans have a superior lien over all existing mortgage liens, and lenders typically are not notified when these liens occur. The Bank will need to verify that the subject's mortgage lien position has not been compromised. For all mortgages secured by subject properties located in states that have been authorized for PACE funding, the Bank will request that the shareholder provide either lien verification documentation or a tax assessment dated within 12 months of the "as of" date of the CVR and will review the most recent of the two documents to confirm that no PACE loans exist. If a special assessment is listed on the tax card and the Bank cannot determine that the assessment is for a PACE loan, then the shareholder will need to provide additional documentation from the applicable county to evidence otherwise.

21. Will the Bank accept mortgages with Private Transfer Fee Covenants?

The Bank can only accept mortgages containing private transfer fee covenants in those cases where the private transfer fee is paid to an association for a purpose that directly benefits the real property encumbered by the covenant. All other mortgages with private transfer fee covenants should not be reported as eligible collateral. This requirement applies only to mortgages on properties with private transfer fee covenants that were created on or after February 8, 2011. Private transfer fee covenants created prior to February 8, 2011, are not considered ineligible collateral if the loan meets all other eligibility criteria.

22. How will the Bank verify existence of a Private Transfer Fee Covenant?

The HUD, lien verification documentation, and other supporting documentation will be reviewed during the CVR to verify the existence of any private transfer fee covenant that is not an eligible private transfer fee covenant. If the documentation reveals the existence of a private transfer covenant that is not an eligible transfer fee covenant, and the covenant was created on or after February 8, 2011, the loan will be considered ineligible.

PAST DUE LOANS

Loans greater than 30 days contractually late are ineligible.

1. **Our payment system allows for a grace period, therefore the loan will not show delinquent until the following month. Can these loans be included as eligible collateral?**

   Yes, as long as the loan does not exceed 30 days late from the contractually specified due date.

2. **There was a loan exception noted in the CVR that was past due at the as of date. However, the loan is now current. Can it be included in future Qualifying Collateral Reports (QCRs)?**

   Yes, it can be included in future QCRs once it becomes current.

3. **How are partial payments recognized relative to past due status?**

   Full payment must be received within 30 days or the loan will be considered ineligible. If any portion of the payment is in arrears, then the loan is considered past due.

4. **Can we substitute the regulator's definition of 30 days past due under certain circumstances?**

   No. The Bank's definition of past due loans supersedes the regulator's definition when determining eligibility.

5. **How does the Bank view loans that are subject to workout arrangements?**

   Workout arrangements do not make the loan ineligible if the loan is not classified substandard, doubtful, or loss and no portion of the payment is more than 30 days past due.

6. **How does the Bank view borrowers in bankruptcy where the court order has stipulated a payment plan?**

   A bankruptcy court-ordered payment plan will not make the loan ineligible if the loan is not classified substandard, doubtful, or loss and no portion of the payment is more than 30 days past due.

MATURED LOANS

1. **Are loans that matured prior to the as-of date, but were subsequently renewed, considered to be ineligible?**

   Loans that matured prior to the “as of” date may be eligible if **<u>all</u>** of the following criteria apply:

   a. The loan’s maturity date was ≤ 30 days on the CVR as of date.
   b. The loan was renewed within 30 days of its maturity date and all appropriate documentation pertinent to the renewal is available to the reviewer.
   c. The matured loan was not greater than 30 days past due or classified as substandard, doubtful, or loss at the time of maturity.

   Matured loans not meeting the above criteria will be considered >30 days past due and ineligible. Ineligible matured loans cited during a CVR are not curable and will be included in the calculation of the final extrapolation rate. Once the loan has been renewed, the loan may be added back to the QCR if all eligibility criteria have been met, but the extrapolation rate will remain in effect until the next CVR is conducted.

CLASSIFIED LOANS

Loans classified internally and/or externally (by regulatory entity) as substandard, doubtful, or loss loans are considered ineligible.

1. Are "Special Mention" or internally classified "watchlist" loans considered ineligible?

No.

EMPLOYEE, OFFICER, AND DIRECTOR LOANS

If a director, officer, employee, attorney, or agent of the shareholder or of the Bank has any personal liability in a loan pledged to FHLBank Atlanta, that loan is ineligible and cannot be used to secure any portion of the shareholder's credit exposure.

1. **Do loans made to employees, officers, and directors of *affiliated* shareholder entities qualify as eligible collateral?**

   Loans to employees, officers, and directors of shareholder affiliates such as subsidiaries, sister banks and holding companies are eligible, except that in the case where the affiliate has entered into an Affiliate Joinder Agreement by and among the Bank, the shareholder and the affiliate, the affiliate's loans are then subject to the same collateral eligibility requirements for loans to its directors, officers, employees, attorneys or agents as the shareholder.

2. **What about loans to partnerships, limited liability companies, and syndicates where an employee, officer, or director is a partner or member of the borrowing entity?**

   If the employee, officer, or director of the shareholder (or of the Bank) is personally liable for any portion of the debt, then the loan is ineligible. Personal liability includes employee, officer, or director personal guarantees for shareholder loans to non-natural borrowers such as LLCs and partnerships.

3. **What about family members of employees, officers, and directors?**

   Loans to family members of employees, officers, and directors are eligible collateral provided that the employee, officer, and/or director is not personally liable.

4. **Who would be considered an agent of the shareholder or the Bank?**

   An agent is a non-employee that has been authorized to conduct business on behalf of the shareholder or the Bank.

5. **Are loans made to FHLBank Atlanta employees considered eligible collateral?**

   Loans made to FHLBank Atlanta employees are not eligible.

PARTICIPATIONS

A participation loan secured by multifamily and/or commercial real estate is eligible only if the shareholder institution is the lead lender, owns at least 51% of the total loan, and has legal control of the original documents, including the participation certificate.

1. **Does the Bank accept participations on residential or HELOC/2nds?**

   No.

2. **Does the Bank accept purchased majority ownership participations?**

   No, a purchased majority interest would not meet the lead lender requirement.

3. **Will the Bank accept participations from shareholder affiliates if the affiliate has executed a joinder agreement?**

   Yes, as long as the participation meets the criteria pertaining to lead lender, 51% ownership of the total loan, and legal control of the documents. The documents may be held at a servicer or custodian if the affiliate has control over the access to the documents.

4. **Can the minority portion of a loan be pledged by a shareholder if its affiliate is pledging the majority portion of the participation?**

   No, the minority portion of the participation is not eligible. The affiliate may report the majority portion if it is the lead lender, owns at least 51%, has legal control of the documents, and the affiliate joinder agreement has been executed.

5. **How is the loan-to-value calculated on a participated loan?**

   The shareholder should calculate the loan-to-value based on the total of the loan's unpaid principal balance (the shareholder's portion plus any other participant's portion) divided by the most recent valuation. For example: Shareholder Bank A owns 60% of a participated loan and Non-Shareholder Bank B owns 40% of that same loan. The current unpaid principal balance of the full balance of the loan is $110,000 and the current appraised value of the property is $125,000. Shareholder Bank A cannot include the loan on its QCR because the LTV of the loan is 88% ($110,000 divided by $125,000), which exceeds the maximum LTV of 85% allowed within the commercial and multifamily portfolios.

6. **Does the Bank accept syndicated loans?**

   No. Syndicated loans hinge on the creation of an alliance of smaller banks that, by joining forces, are able to meet the credit needs of the borrower. Each member of the syndicate then lends a portion of the total loan amount. Most syndicated loans take the form of a direct-lender relationship by which the lead lender is the agent for other lenders and the other banks are signatories to the loan agreement. Each lender owns an equal share in the loan and cannot take any action on the loan including modifications, collection activities, or sale/transfers. Essentially, the shareholder does not have full control of the loan, and therefore, these loans are considered ineligible.

<u>LTV CALCULATION</u>

The current loan-to-value should be calculated on the current unpaid principal balance and the most recent valuation obtained or prepared by the shareholder. If the LTV is being calculated as part of a CVR, the recent valuation must have been in effect on or before the as-of date of the CVR. If the shareholder has not obtained a post origination valuation, use the valuation from loan origination. For purchase money mortgages within 12 months of closing, the lower of the purchase price or the appraised value should be used. For purchase money mortgages seasoned longer than 12 months, the most recent valuation should be used. If there is no recent valuation in the file, the LTV should be calculated on the lower of purchase price or appraised value at origination. Acceptable valuations prepared or obtained by the shareholder include:

Certified/professional appraisals	Limited/AVM type appraisals
Tax valuations and assessments	Internal valuations

1. What are the LTV requirements for residential, commercial, multifamily and HELOCs/2nds collateral?

Portfolio	Maximum LTV	LTV Requirement
Residential	100% at origination 130% post origination	For the post-origination LTV to exceed 100%, the LTV at origination must have been ≤ 100%
Commercial	85%	If second mortgages are reported, the total LTV for the first and second mortgage combined may not exceed 85%
Multifamily	85%	If second mortgages are reported, the total LTV for the first and second mortgage combined may not exceed 85%
HELOCs/2nd Mortgage Loans	100%	The combined LTV of the first and second loans may not exceed 100%. For HELOCs, use the <u>total</u> line amount, not the unpaid balance. For close ended loans, use the unpaid principal balance.

2. If the loan is secured by multiple forms of eligible collateral, how do I calculate the LTV?

The LTV should be calculated using the total value of only the <u>***eligible***</u> collateral that is pledged to the Bank.

If the loan is secured by multiple forms of eligible and ineligible collateral, how do I calculate the LTV?

The LTV should be calculated using the total value of only the <u>***eligible***</u> collateral that is pledged to the Bank. The value of ineligible collateral, such as vacant land, should be excluded from the calculation.

3. How should the CLTV be calculated for HELOC/2nds when the current balance for the first mortgage loan is unavailable?

If the shareholder does not have the current first mortgage balance, use the first mortgage amount at origination (usually included in the lien verification documentation) to calculate the CLTV. The UPB of the first mortgage can also be obtained from a more recent credit report.

4. For HELOC/Second Mortgage loans, if there is no evidence of the first mortgage balance, is the loan ineligible?

Yes. The Combined Loan-to-Value (CLTV) of the subject loan cannot be calculated without the principal balance of the first mortgage, but the loan may be eligible if there is evidence that the first mortgage listed on the lien verification documentation was subsequently paid off. Please refer to page 9 of this FAQ guide on acceptable documentation required by the Bank to evidence the payoff of a prior lien. Payoff must have occurred prior to the CVR as-of date in order for the loan to be eligible.

5. If the subject loan is a HELOC, do I use the unpaid principal balance or credit line when calculating CLTV?

For a HELOC, use the maximum amount of the credit line to calculate the CLTV and for a home equity mortgage, use the current unpaid principal balance.

PROPERTY APPRAISALS

The Bank requires sufficient documentation in the loan file to support the property type and value. If an updated valuation is obtained after origination for any purpose, the Bank will expect to see the most recent valuation in the file.

1. What is sufficient appraisal documentation?

The Bank accepts certified appraisals, limited/AVM type appraisals, tax valuations/assessments, and internal valuations, which may be accompanied by tax records and/or comparable sales. *The Bank must be able to verify the property type.*

The Bank will consider tax assessments as valuation documentation for loans reported as collateral only when the shareholder relies on the tax assessments as a valuation source (at either origination or post-origination):

- If the shareholder relies upon a post-origination tax assessment as a valuation document for an individual loan, then the tax assessment will be treated as updated valuation document for the purpose of calculating the current loan-to-value (LTV).

- If there is no indication that the shareholder relied upon the tax assessment for an updated valuation on an individual loan, then the tax assessment will not be used as updated valuation document for the purpose of calculating the current LTV. Instead, the Bank will use the most recent valuation document, other than the tax assessment, to determine the most recent LTV.

- If the only valuation document provided for an individual loan is a tax assessment, then the Bank will use the tax assessment as a valid valuation document to determine the current LTV.

- As a reminder, all valuation documentation obtained for an individual loan must be included in the file and made available for review during the CVR.

2. Does the Bank accept appraisals subject to completion?

Yes. However, the property must be completed as described in the appraisal and the shareholder must provide evidence of completion. Evidence of completion includes a certificate of occupancy, certificate of completion, recertification of value, or a loan officer's certification.

3. If an internal appraisal does not break out the value of the land and the improvements, is that loan eligible?

If the internal appraisal provides the land acreage, and the land is no more than five acres, then the separate values of the land and the improvements are not necessary. If the internal appraisal does <u>not</u> specify the land acreage, or the acreage is more than five acres with no comparables to support the excess acreage, then the shareholder must provide the separate values of the land and the improvements to determine if the loan meets the Bank's LTV requirements.

FLOOD INSURANCE

Loans originated after September 23, 1994, with improvements located within a Special Flood Hazard area, as designated by the Federal Emergency Management Agency (FEMA), must meet the Bank's minimum flood insurance coverage requirements. A corresponding "Standard Flood Hazard Determination Form" must be available for review for all loans to determine if the improvements are located in a flood hazard area.

1. **What is the minimum coverage amount requirement for residential 1-4 unit loans?**

   The minimum coverage amount is the lesser of the current unpaid principal balance, the replacement value of improvements, or $250,000. Condominiums have the same coverage requirements as a Residential 1-4 unit loan.

2. **Is there a difference in the minimum coverage requirement for HELOC/second mortgage loans?**

   Yes. The requirement is the lesser of the combined unpaid principal balances of the first and second liens, the replacement value of improvements, or $250,000.

3. **What is the minimum coverage amount requirement for multifamily secured loans?**

   Effective June 1, 2014 for new flood insurance policies, renewals and change endorsements, the maximum coverage limit for multifamily properties with five or more units is $500,000 in accordance with the Biggert-Waters Flood Insurance Reform Act of 2012. For multifamily properties, the insurance must cover the lesser of the unpaid principal balance, the replacement cost of the improvements, or $500,000, which is the maximum coverage permitted per structure.

4. **What is the minimum coverage amount requirement for commercial secured loans?**

   The lesser of the current unpaid principal balance of the loan, the replacement value of improvements, or $500,000 per structure.

5. **Is coverage obtained by the homeowners association, the builder, or the developer permissible?**

   Yes, as long as the improvement coverage is the lesser of the replacement cost of the building(s), the total number of units in the building(s) times $250,000, or the current unpaid principal balance of the loan.

6. **Is retention of the "Standard Flood Hazard Determination Form" a requirement for loans with improvements that <u>DO NOT</u> reside within a special flood hazard area?**

   Yes, a corresponding "Standard Flood Hazard Determination Form" is required for review.

7. **May flood certifications be provided after the "as of" date of a CVR?**

   Yes, but the loan will be ineligible if the property is in a flood zone and the flood insurance coverage was not in effect on the "as of" date.

PROPERTY TYPE ELIGIBILITY

All categories of loan collateral require that the underlying property contain a completed structure occupied or ready for occupancy. Loans secured by vacant land or property under construction are ineligible. Additionally, loans secured by a mixture of eligible and ineligible collateral types (i.e., vehicles, CDs, stocks, insurance, etc.) can be reported only if the value given to the eligible collateral is used to fully support the LTV requirement. The value of the ineligible collateral types cannot be used in the LTV calculation.

If a loan is secured by, and relies upon, qualifying collateral from more than one eligible portfolio type, it may be included on the Qualifying Collateral Report if it is reported in the portfolio receiving the lowest market value. Please call your Collateral Relationship Specialist with any questions you may have about these types of situations.

Residential and HELOC/Second Mortgage Loans (1-4 unit single family residences)

1. **Does the Bank accept loans secured by residential 1-4 properties where the primary purpose of the loan proceeds are for business use or the purchase of personal property?**

   Yes. If the loan is secured by residential real property with no more than 4 units, the business purpose of the loan or the use of the proceeds does not affect the eligibility of the loan.

2. **What are the Bank's requirements for loans secured by mobile/manufactured homes?**

   The Bank requires that all mobile/manufactured homes be converted from personal property to real property. This conversion must be documented by: (a) an ALTA form 7 endorsement to a title insurance policy; (b) a legal opinion stating that the mobile/manufactured home has been converted to real property under applicable state law; or (c) shareholder-provided documentation from the applicable state authority indicating that the home has been converted to real property. Please refer to *Manufacturing Housing---Alternative Evidence of Real Property Status* on the Bank's website for information as to each state's conversion requirements.

3. **Is a four-unit apartment building considered to be eligible within the residential portfolio?**

   Yes. Any stand-alone residential improvement with up to four units may be reported in this category. This includes duplexes, triplexes, and quadplexes.

4. **Does the Bank accept loans secured by residential co-ops?**

   No. The Bank does not accept shares in a cooperative ownership structure as eligible collateral.

5. **Are loans secured by multiple 1-4 family residences considered eligible, and if so, in what category should they be reported?**

   Yes. These loans are eligible and may be reported in the residential category provided that they meet all other eligibility criteria. For example, this includes individual condo units in the same complex, as well as multiple duplexes that are part of the same community (also see question 8 below).

6. **How does the Bank policy address an individual condominium unit that is part of a multi-unit complex?**

   A single condominium or town home unit is considered to be a residential 1-4 property and is eligible even if attached to other units.

7. **Are there any restrictions on the amount of acreage an improved residential 1-4 property can contain?**

   Yes. Improvements with five acres or less are eligible. If the property contains more than five acres, the Bank requires comparables in the immediate sub-market to evidence that the acreage is typical of the community. However, no more than 15 acres of land can be used to calculate the loan-to-value ratio for the property. The value of the land exceeding 15 acres must be excluded from the calculation.

8. **Should a loan that is secured by multiple condos in the same development, or a loan where there are multiple duplexes securing the loan, be reported in the multifamily or the residential portfolio?**

   Loans secured by multiple condos in the same complex (or different complexes) should be reported in the residential portfolio. Duplexes, triplexes, and quadplexes should be reported in the residential portfolio if the total number of units per parcel is not greater than four. If the number of units in a group of duplexes, triplexes, or quadplexes exceeds four, and are all on the same parcel, then these should be included in the multifamily portfolio.

9. **Does the Bank accept loans where the property is held in a life estate?**

   No. A life estate creates a legal arrangement whereby the life tenant retains use (rights to rents and profits), possession of the property, and the costs of maintaining the property until death. The life tenant has the legal right to remain in the subject residence until death. Since the right to occupancy impairs the transferability of the property, the Bank does not accept loans where the collateral is held in a life estate.

10. **Should condotels be reported in the commercial or residential portfolio?**

    Loans secured by condotels must be reported in the commercial portfolio.

Multifamily Loans (residential structure(s) with five or more units)

1. **If a shareholder does not segregate loans secured by multifamily properties from commercial real estate loans, can multifamily loans be included in the commercial portfolio?**

   No. The loans secured by multifamily properties must be reported separately under the multifamily portfolio.

2. **Does the Bank have any acreage restrictions for a multifamily property?**

   No, but the acreage should be reasonable with respect to the size of the improvements and what is typical in the market for such improvements.

PROPERTY TYPE ELIGIBILITY (continued)

3. **Does the Bank require that a Phase I, Phase II, or any other environmental site assessments be performed in order for multifamily or commercial properties to be considered eligible?**

   No. Environmental assessments are not required unless other documentation in the file indicates the presence of an environmental concern and/or recommends that an assessment or further investigation should be performed. If environmental concerns are noted in the file, remediation of those concerns should be documented in the file, or the loan should be excluded from the eligible collateral pool. If there is an ongoing environmental concern, the loan should be excluded from the eligible collateral pool until the environmental problem is fully remediated.

Commercial Real Estate

1. **In what collateral category should a loan be reported that is secured by an office that was formerly a house?**

   If the zoning and use of the house has been converted to commercial, the loan should be reported as commercial.

2. **If the borrower operates a business out of their home, does that require the loan to be reported as commercial?** No, as long as the home remains zoned for residential use.

3. **What commercial property types are considered ineligible?**

   - CRE properties with potential environmental issues, such as gas stations, auto repair shops, truck terminals, airports and air transport, sewage treatment facilities, dry cleaners, landfills/junkyards, or explosive manufacturing facilities
   - CRE properties with noted or unresolved environmental issues in the Phase 1 or Phase 2 (or similar environmental reports)
   - Properties with Underground Storage Tanks (USTs) are ineligible if the tank has not been properly filled or removed. For properties where a UST has been filled or removed, the Bank requires evidence of an independently prepared environmental report in the file that indicates a conclusion that no recognized environmental conditions were identified as a result of sampling conducted post-removal or closure of the UST, and no further action is required. The environmental report must be dated after the UST has been filled or removed
   - Vacant land or similar properties such as farms, mobile home parks, campgrounds, fish camps, RV parks, timberland, and parking lots (includes lots with a payment booth and attendant)
   - Marinas, including slips, docks, and dry dock storage
   - Saw mills
   - Radio or cell towers
   - Stand-alone restaurants not in the Top 10 list (includes coffee shops, bakeries, etc.)
   - Bars/Night Clubs/Casinos
   - Correctional facilities
   - Incinerators
   - Military property
   - Mineral mines, quarry sites
   - Heavy industrial plants (petroleum plant, meat processing plant, power plant, public utility, steel mill, foundry, etc.)

For additional information regarding “standard” and “special purpose” commercial loans, please refer to the “Expansion of Commercial Real Estate Eligibility” document.

4. **If a loan secured by a retail strip center contains a restaurant tenant that is not on your list of eligible restaurants, would the loan be ineligible?**

   No. The Bank's restrictions pertaining to restaurants relate to stand-alone structures only. The collateral for the loan described is acceptable as retail property.

5. **How are loans secured by a mixed-use property containing lower-level retail and residential condominiums above treated according to Bank policy?**

   This loan would be considered eligible. Any loan containing multiple forms of eligible collateral should be reported in the category with the lowest market valuation. This same logic would hold in situations where there are multiple, individual forms of qualifying collateral, such as a loan secured by a house and an office building, etc.

6. **Does the Bank require that a Phase I, Phase II, or any other environmental site assessment be performed in order for commercial property to be considered eligible?**

   No. Environmental assessments are not required unless other documentation in the file indicates the presence of an environmental concern and/or recommends that an assessment or further investigation should be performed. If environmental concerns are noted in the file, remediation of those concerns should be documented in the file, or the loan should be excluded from the eligible collateral pool. If there is an ongoing environmental concern, the loan should be excluded from the eligible collateral pool until the environmental problem is fully remediated.

7. **Is a church an acceptable form of commercial real estate?**

   A stand-alone church, synagogue, or house of worship is eligible collateral if the current LTV is 50% or less and the loan meets all other eligibility requirements such as acceptable lien position, not 30 days past due, etc.

8. **Are mini storage/warehouse facilities eligible types of commercial real estate?**

   Yes. A facility designed or operated exclusively for the storage of goods in individual compartments or rooms that are available for use by the general public on a rental or lease basis is eligible.

9. **Are restaurants eligible types of commercial real estate?**

   Yes, but only if they meet Bank requirements. Stand-alone restaurants are eligible if they are nationally ranked and recognized as one of the top 10 restaurants based on either sales revenue or units operated. Please refer to the "Eligible Collateral Restaurant List" on the Bank's website for collateral eligibility. This list is updated on an annual basis.

   Restaurants located in strip centers, office buildings, etc., do not make the loan ineligible. Only stand-alone restaurants must meet the Top 10 criteria.

   Note: Restaurants located in gas stations or super-centers with gas pumps are not eligible collateral.

CROSS COLLATERALIZATION

The Bank must have a lien on all loans that are cross-collateralized in order for the reported loan to be eligible. If any reported loan is crossed-collateralized with a loan not pledged to the Bank, then the shareholder must sign and deliver a Pledge Supplement agreement. The Pledge Supplement gives the Bank a lien on the unpledged loan unless the shareholder has pledged that collateral to another entity such as The Federal Reserve Bank. The loan(s) covered by the Supplement are not considered eligible loans and do not receive any collateral value. They should not be reported as eligible collateral.

1. When are loans pledged to the Bank considered to be cross-collateralized loans? What are the review requirements?

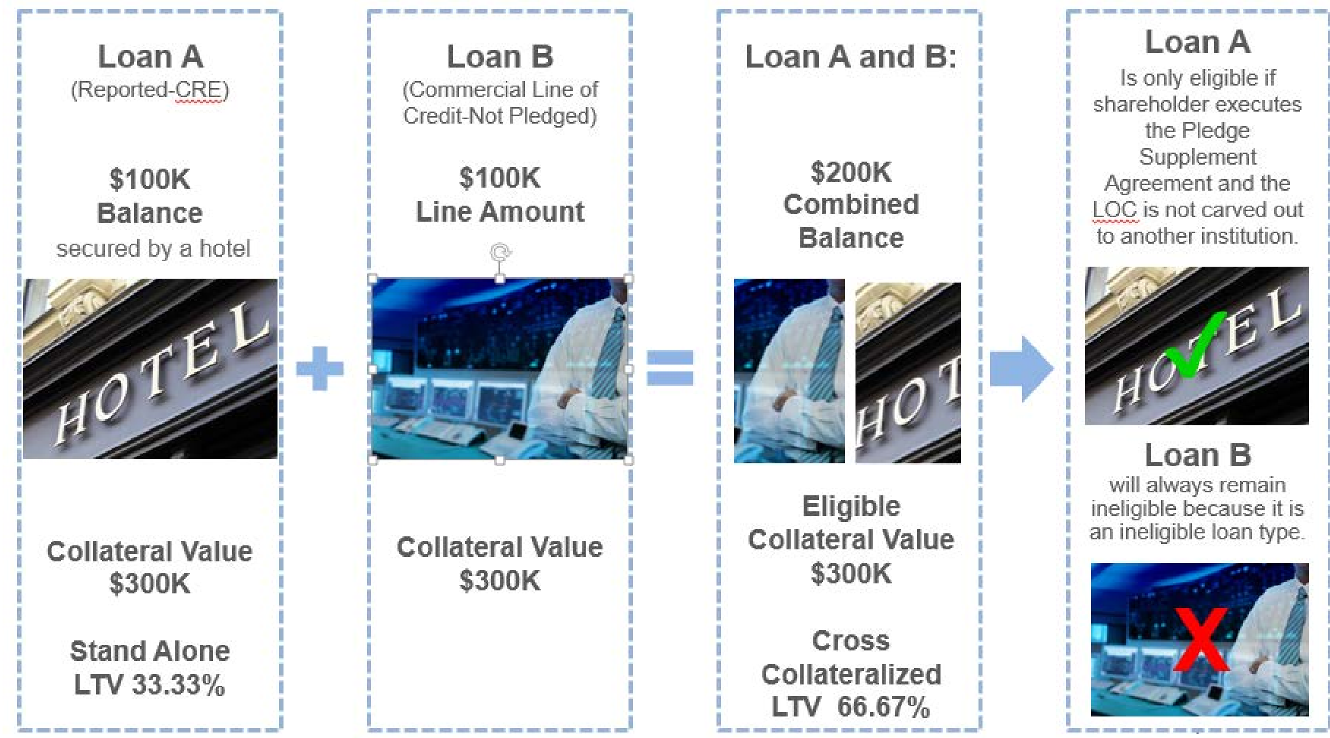
Generic cross-collateralization language (aka dragnet statements), does not constitute cross-collateralization that requires further review. However, if the note or mortgage for the subject loan references cross-collateralization with another <u>specific</u> loan number, or a <u>specific</u> property address, then further review is required. Obtain the following documents for each cross-collateralized loan and review them to determine if the crossed loans are eligible: the note, mortgage, appraisal, evidence of lien position, and evidence of current principal balance. If applicable, review the Pledge Supplement and/or Comfort Letter (these are also called Carve Out Letters, Subordinate Agreements, or Intercreditor Agreements) to make sure that the crossed loans are pledged to the Bank.

2. Please clarify the cross-collateralization policy requirement as it pertains to LTV.

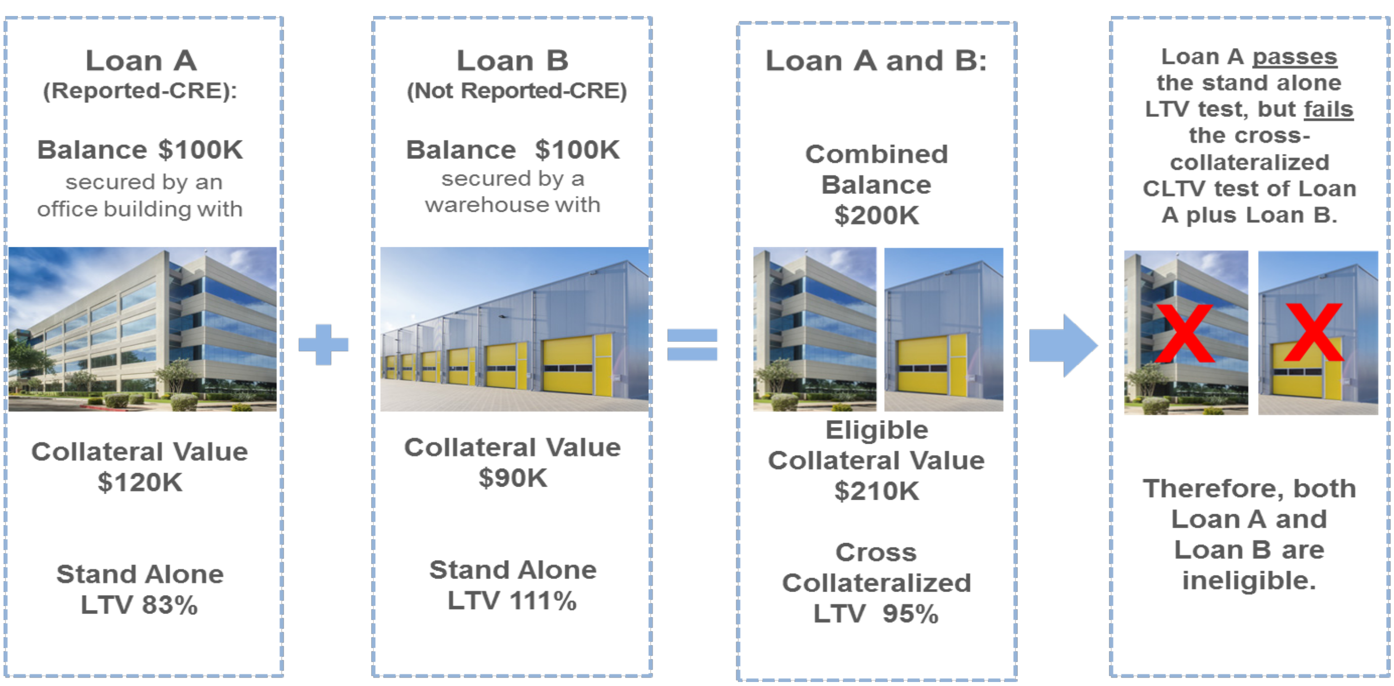
There are two LTV tests that are applied to cross-collateralized loans. The first LTV test is specific to the subject loan and to each individual loan included in the cross: The subject loan and each crossed loan must meet the Bank's eligibility criteria for that collateral type (residential $\leq$ 130% if the loan originated with an LTV $\leq$ 100%, HELOC $\leq$ 100%, and commercial/multifamily $\leq$ 85%). If each individual loan passes the first test, then the second test is applied. The second LTV test combines the subject loan with the crossed loans. When the subject loan is cross-collateralized with one or more loans, the combined LTV of the subject and the crossed loans must not exceed the Bank's eligibility criteria for the portfolio in which the <u>subject loan</u> is reported. The examples on the following pages illustrate the eligible and ineligible status of several cross-collateralized loan scenarios.

CROSS-COLLATERALIZED LOANS (continued)

Cross-Collateralization Scenario 1:

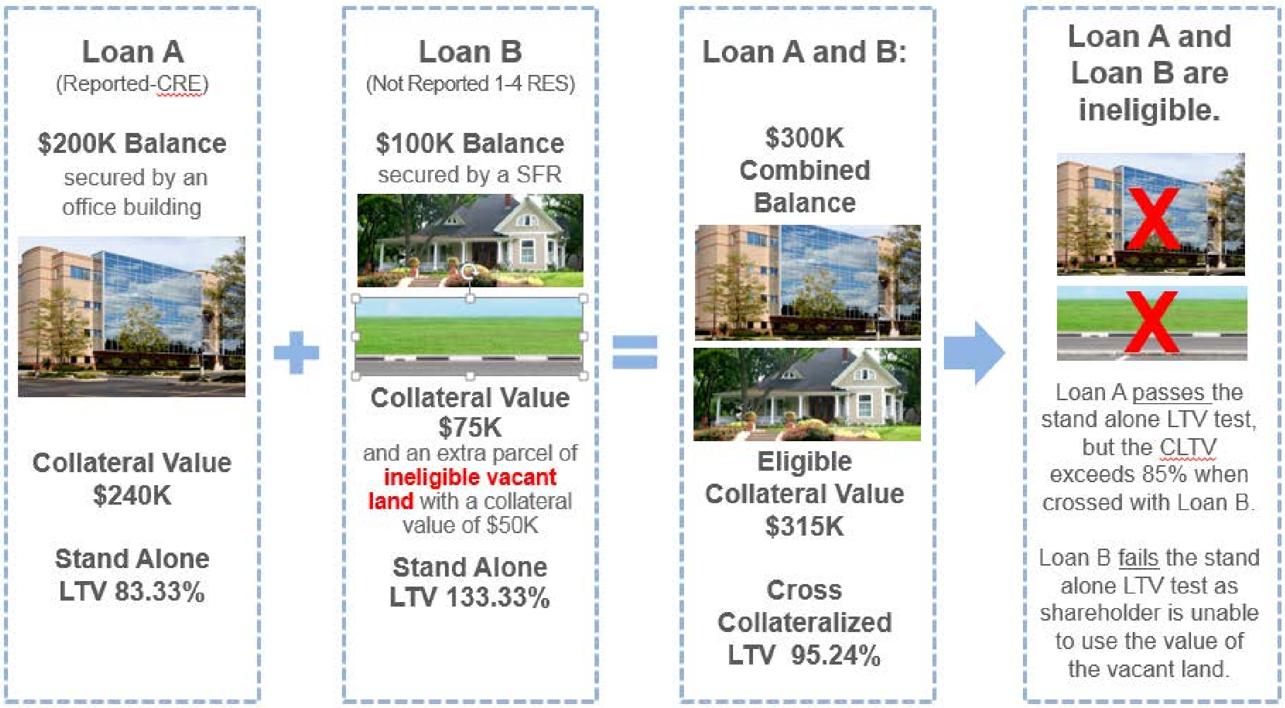


Cross-Collateralization Scenario 2:



CROSS-COLLATERALIZED LOANS (continued)

Cross-Collateralization Scenario 3:



GUARANTEED LOANS

Loans guaranteed by any entity that does not give the Bank control over the collateral in the event of default (SBA, USDA, etc.) are not considered to be eligible collateral.

1. Does the Bank accept non-guaranteed First Mortgage Loans under the SBA 504 program?

Yes.

AFFILIATE COLLATERAL PLEDGES

An affiliate of a shareholder may pledge collateral on behalf of the shareholder, provided the shareholder, affiliate, and any intermediate holding company have executed a joinder agreement satisfactory to the Bank.

1. What are the qualifications for eligible affiliates?

The affiliate is controlled by, controls, or is in common control with the shareholder. The affiliate has no outside debt or other liabilities for borrowed money, except as permitted by the Bank. The typical approved affiliate is structured as a wholly owned REIT.

2. What collateral can affiliates pledge?

The collateral being pledged must have been previously owned by the shareholder. Such collateral may consist of loans, securities, or cash under the usual eligibility criteria.

3. What is the approval process for pledging affiliate collateral?

The affiliate must be qualified to be able to pledge its collateral on behalf of the shareholder. This involves the completion of a joinder agreement questionnaire, a review of the completed questionnaire by the Bank's documentation manager and the Bank's legal department, and preparation of the required legal documents necessary to accept the collateral. The final step is the execution of a joinder agreement. Please contact your institution's documentation manager to begin the process.

4. Are there any credit restrictions on the pledging of collateral by affiliates?

The Bank does not have any credit restrictions on the ability of shareholders to pledge affiliate collateral as long as they meet the requirements listed above.

<u>GROUND LEASES AND LEASEHOLD INTERESTS</u>

In order for a loan secured by a property on a ground lease or leasehold interest to be eligible collateral, the lease must be <u>subordinate to the mortgage and the term of the lease must equal to or exceed the note maturity,</u> with the following exception:

1. Under what situation will a loan with an unsubordinated ground lease be eligible?

The Bank will accept long-term leaseholds in superior lien position that are held by power and utility companies and the U.S. Army Corp of Engineers. Ground leases from these lessors typically are not subordinated due to the longer terms (as long as 99 years), which far exceed the terms of the mortgages. Certain shorter-term power/utility leases are accepted if the lease contains an automatic renewal clause.

2. My institution originates loans in Maryland where some residential properties are subject to annual ground rents. Will the Bank accept these loans as eligible collateral?

Yes. Although the ground rent is a lien on the property, there are some protections afforded to the Leaseholder and Lender. The documentation produced by the title company for the lender differs only in the wording of the estate on the title commitment, which will read “leasehold” rather than “fee simple” and the date and amount of the annual rent are reflected. The Lender must be notified in the event the ground rent owner is taking any action against Leaseholder for nonpayment of rent through a writ of summons through the courts to re-enter premises. The Lender can escrow the ground rent for the borrower or acquire the land in its own name in the event the borrower defaults on the ground rent payments. Additionally, there is a limit as to the amount of back ground rent that can be collected.

The Bank requires and will review the following information with regard to residential ground leases in the state of Maryland:

- Review ground lease to ensure term exceeds term of subject mortgage.
- Review copy of County Registry (if registered) to validate lease and ground lease rent amount.
- If the shareholder does not escrow, request copy of ground lease billing statement to evidence lease is current.
- If all steps above are verified, then the residential ground lease does **NOT** need to be subordinate to the subject mortgage.
- Based on amended Maryland law, if the ground lease is not registered, then it is technically subordinate to the subject mortgage and the above requirements will not apply. However, once the lease is registered, all requirements mentioned above must be met.

ANTI-PREDATORY LENDING

The Bank requires that all residential mortgage collateral comply with all applicable federal, state, and local anti-predatory lending laws and other similar credit-related consumer protection laws designed to prevent or regulate abusive and deceptive lending practices and loan terms, and all rules, regulations, orders, and guidance promulgated by any federal, state, or local regulatory agency in connection with such laws (collectively, "Anti-Predatory Lending Laws").

A summary of the Bank's requirements is listed in the chart below. Any residential mortgage collateral (includes first lien 1-4 family and first or second lien HELOCs/ HELs) that does not comply with these requirements will not qualify as eligible collateral. Each shareholder institution is responsible for complying with these requirements, regardless of whether or not the institution originates or purchases residential mortgage collateral.

FHLBANK ATLANTA APL REQUIREMENTS

LOANS ORIGINATED AFTER OCTOBER 1, 1995 AND PRIOR TO APRIL 1, 2011	LOANS ORIGINATED ON OR AFTER APRIL 1, 2011
Applicable to all residential collateral (including HELOCs) with the exception of loans to non-natural borrowers, and loans for business or investment purposes.	
Prepayment penalties are permitted for first 5 years of the loan term.	Prepayment penalties cannot exceed 3% in year one, 2% in year 2, and 1% in year 3. After the end of the third year, a prepayment penalty may not be imposed.
Mandatory arbitration is permitted if allowable under applicable state law.	Effective June 1, 2013, mandatory arbitration is not permitted, even if allowable under applicable state law. The prohibition applies to loans for which an application is received on or after June 1, 2013. It does not apply to loans for which the application was received before June 1, 2013, even if the loan is approved or funded on or after June 1, 2013
The financing of single-premium credit insurance is prohibited (credit life, disability, employment, etc.).	The financing of single-premium credit insurance is prohibited (credit life, disability, employment, etc.).
The APR cannot exceed the Treasury Rate (for the applicable loan term) by more than 8% for 1st liens and 10% for 2nd liens.	The APR cannot exceed the Average Prime Offer Rate (for the applicable loan term) by more than 6.5% for 1st liens and 8.5% for 2nd liens.
Total points and fees cannot exceed the greater of: • 8% of the total loan amount (original loan amount less non-finance charges); or, • The annually adjusted maximum dollar amount of closing costs for low dollar loans	Total points and fees cannot exceed the greater of: • 5% of the total loan amount (original loan amount less non-finance charges); or, • If the loan amount is less than $20,000, the total fees must be the lesser of 8% of the loan amount or $1,000

ANTI-PREDATORY LENDING (continued)

1. **What loan file documentation will the Bank need in order to perform APL testing on residential and HELOC/Second Mortgage loan samples for eligibility (except for loans discussed in question 3 below)?**

   a) HUD-1 or similar documentation
   b) Final Truth-In-Lending (TIL) Disclosure or similar documentation (must include APR)
   c) Underwriting Transmittal sheet or application (to determine if it was a business loan)

2. **What loans are subject to the APL APR/Points and fees tests?**

   All residential first and second mortgage loans (including HELOCs/HELs) originated after October 1, 1995.

3. **Are loans for business purposes, loans to non-individuals, or loans secured by 2nd homes subject to APL testing?**

   No. Loans for business purposes or investment properties, loans to non-natural borrowers, and loans secured by second homes are not subject to Anti-Predatory Lending points and fees tests.

4. **Will the Bank calculate the APR for each residential loan sample selected for APL testing?**

   No, the shareholder will be required to provide documentation that discloses the APR, such as the Truth-in-Lending Disclosure.

5. **If the APR is not available will the loan be classified as ineligible?**

   Yes. However, if the APR is not available, the shareholder may calculate the APR for Bank testing purposes. The loan will become eligible if it meets all APL requirements.

6. **What if the prepaid single-premium credit insurance is purchased by the borrower outside of the loan transaction?**

   If credit insurance is obtained outside of the loan transaction, these loans will be considered eligible. This type of credit insurance is typically offered post-closing by various insurance companies and typically will not be documented in the file.

7. **What credit insurance characteristics will make a loan eligible or ineligible?**

   If the premiums are financed and prepaid, the loan is ineligible. If the premiums are paid monthly and calculated based on each month's unpaid principal balance, the loan will be eligible if all other eligibility requirements are met. Credit insurance includes life, disability, and other types of credit coverage.

8. **Does the Bank's Anti-Predatory Lending Policy apply to loans purchased by the shareholder and reported in the collateral pool?**

   Yes, the Bank's Anti-Predatory Lending Policy applies both to shareholder originations and purchases of residential and HELOC/second mortgage collateral.

Please see the Bank's Guidelines to Promote Responsible Lending in the Member Products and Services Guide: http://corp.fhlbatl.com/files/documents/member-products-and-services-guide.pdf

LOAN MODIFICATION IMPACT ON SUBPRIME/NOT SUBPRIME CLASSIFICATIONS

The following section discusses what is considered to be a loan modification versus what is considered to be a new loan for the basis of determining subprime and nontraditional characteristics within the residential and HELOC/2nd mortgage portfolios.

1. When does the Bank treat a loan modification as a new loan?

The Bank would consider a loan modification or renewal as a new loan when (1) the file contains new credit and income documents that were relied upon to make an updated credit decision, and (2) when the change in terms are such that there are new disclosures and significant changes to the previously existing terms. Another consideration would be if the Bank's shareholder is taking on more credit or repayment risk for the loan. For example:

New Loan:
The original term of the loan recently expired. There is a new loan agreement (same loan #) with a different interest rate, a new term, and an additional $20,000 advanced. The file contains new income documentation, credit bureau reports, and an underwriting transmittal along with new disclosures. This loan "modification" would be considered a new loan. The new disclosures, credit, and income documents will be reviewed during a CVR to determine if the loan is subprime or not subprime.

Not a New Loan:
The original term of the loan recently expired. There is a new loan agreement (with same loan #) with same interest rate and payment and new term. No additional money was advanced. The only new underwriting document in the file is a new credit bureau report. There are no new income docs, underwriting transmittal, or disclosures. The new term would be considered a modification of the original loan. The disclosures, credit report(s), and income documents from the origination date will be reviewed during a CVR to determine if the loan is subprime or not subprime.

The chart on the following page gives several scenarios to determine if a loan has been modified or if it is a new loan.

Examples of Modifications and New Loans										
Scenario	**Loan Closed prior to 7/10/07**	**Loan modified on or after 7/10/07**	**New Income docs**	**New Credit Bureau Report**	**New Underwriting Transmittal**	**New Disclosure s**	**SP / NT**	**Modification or New Loan**	**Requires mitigating factors**	**Comments**
1	30-year fixed loan	Interest-only loan	No	No	No	No	SP/NT	New Loan	Yes	New loan because it is going to IO, a nontraditional characteristic.
2	Negative Amortization loan	Interest-only loan	No	No	No	No	SP/NT	New Loan	Yes	New loan because it went from neg am, to IO.
3	1 year loan w/30 year amortization	1-year loan with 29-year amortization	No	No	No	No	To be determined when reviewing the file.	Modification	No	These are loans where the Shareholder might adjust the interest rate to market every year.
4	30 year fixed loan at 7%.	Borrower goes to lender and asks for a 30-year fixed loan at a 5% interest rate (interest rate is at market).	Yes	Yes	No	No	To be determined when reviewing the file.	New Loan	To be determined when reviewing the file	Regardless of intent, new credit and income documents constitute a credit decision which makes this a new loan
5	Original loan amount was $200,000 at a 7% interest rate w/ 30 year amortization with a 10 year term.	Original term of loan recently expired. New loan agreement (same loan #) with same interest rate and payment and new term. No additional $ advanced. No new disclosures.	No	Yes	No	No	To be determined when reviewing the file.	Modification	No	Modification because same interest rate, term and loan amount below original loan amount. Even though there was a new credit report, there is no new income or UW documents.
6	Original loan amount was $200,000 at a 7% interest rate w/ 30 year amortization with a 10 year term.	Original term of loan recently expired and loan balance is currently $180,000. Loan balance goes back up to $200,000. New loan agreement (same loan #) with same interest rate and payment and new term.	No	Yes	No	No	To be determined when reviewing the file.	Modification	No	Modification because same interest rate, term and loan amount goes back to original amount. Even though there was a new credit report, there is no new income or UW documents.

UNDERWRITING

The following section discusses general underwriting guidelines.

1. **Underwriting guidelines change frequently and the guidelines today may be different from the guidelines yesterday. How will the Bank treat loans underwritten prior to the shareholder's current guidelines?**

   Loans underwritten prior to the shareholder's current guidelines will need to be evaluated based on when they were underwritten. In order to do so, the analyst/reviewer may need to request this information from the appropriate staff at the shareholder bank. Missing or unavailable guidelines will not trigger an exception.

2. **Is the Bank going to review the assets used to close and if so, do reviewers verify assets to close or assets to close plus reserves?**

   Asset information contained in the file will be used to confirm how much of the borrower's available assets was used at closing and how much remained post-closing "in reserve" that could be used to pay off or pay down the loan. The remaining reserves may serve as a mitigating/ compensating factor to offset risk factors that are present in the loan structure. The Bank does not require its reviewers to independently verify either income or assets.

3. **The loan files may have a variety of different document dates due to modifications, renewals and other relationships the borrower has with the shareholder bank. Which documents does the Bank use? Should information from the other lending relationships be provided for the review?**

   If there are modifications or renewals of a loan that have resulted in significant changes to the loan, the reviewer will use the documents associated with that modification or renewal (which may include the original note and mortgage). This could include documents from other loan files if necessary, such as disclosures and underwriting documents. If the lender has not updated the underwriting, i.e., credit report, FICO, DTI, etc., the reviewer will need to rely on the original underwriting documentation in the file. In instances where the shareholder has a single credit file for multiple loans, the reviewer can use that "consolidated" credit file.

4. **If there are numerous credit reports in the file with a variety of dates, which is used for the review purposes? Does the Bank review the credit report prior to the date of the note, renewal, modification, or renewal? What if the credit score is over 660 on the most recent credit report, but was below 660 when the loan was originated?**

   The Bank's eligibility requirements relate to underwriting information used to originate the loan; therefore, the Bank only relies on documents obtained prior to and closest to the origination date. Subsequent documentation obtained for other loans will not be relevant to the original underwriting decision for the sample loan under review. Subsequent documentation should only be used if the original loan has been modified or renewed and the subsequent documentation relates to that modification or renewal.

   If there are several credit reports in the file that were dated prior to the loan closing, the credit report that is dated closest to the closing date should be used.

5. **What will be the procedures for loans made on or after 7/10/2007 where the credit report is missing from the file and the DTI is equal to or above 40%? Will these loans be ineligible?**

   These loans may be eligible if there are mitigating factors for the omission of the credit report and DTI equal to or above 40%.

6. **Does the Bank use a borrower's middle credit score or the score from a specific repository? If there are multiple borrowers, which borrower's credit score is used?**

   The Bank will use the borrower's middle score if three scores are provided. If two scores are provided, the Bank will use the lower of the two. If there are multiple borrowers, the Bank will use the borrower with the lowest middle credit score.

7. **If the shareholder does not pull a tri-merged report, which score is used?**

   The Bank will use the lowest score of the scores provided.

8. **What if we pull credit reports without the credit scores - will these loans be considered Subprime?**

   There are two criteria which must be considered in order to determine if a loan is subprime: Credit Score and Debt-to-Income Ratio (DTI). Per the Bank's policy, subprime loans are those with a credit score ≤ 660 and a DTI ≥ 50% or missing. Loans are also considered subprime if the DTI is ≥ 40% and < 50% and the credit score is ≤ 620 or missing.

   If the loan is missing a credit score or if the DTI cannot be calculated, then the reviewer will rely solely on the other half of the evaluation to determine if the loan is subprime.

DEFINITION FOR LOANS REPORTED AS ELIGIBLE COLLATERAL:

		DTI			
		< 40%	**≥ 40% & <50%**	**≥ 50%**	**Missing**
Credit Score	**> 660**	Not Subprime	Not Subprime	Not Subprime	Not Subprime
	> 620 & ≤ 660	Not Subprime	Not Subprime	Subprime	Subprime
	≤ 620	Not Subprime	Subprime	Subprime	Subprime
	Missing	Not Subprime	Subprime	Subprime	Subprime

*Note – The interagency guidelines on subprime lending specifically state that verifying income is critical to conducting a credible analysis of borrowers' repayment capacity. Therefore, if a loan is a Low/No Documentation Loan (i.e. Stated Income/Verified Asset (SIVA), Stated Income/ Stated Asset (SISA), No Ratio , No Income/No Asset or No Documentation loan structure where the income has not been verified, the DTI is considered to be missing.

9. Do I need to provide a DTI calculation for loans made to borrowers where the loan is secured by their primary or secondary residence and there is no credit score available?

Yes. If the credit score is missing and a DTI is not provided, the loan will be classified as subprime. If the loan was originated on or after July 10, 2007, and no credit score or DTI is provided, the loan will be considered ineligible if satisfactory mitigating factors do not exist.

10. Do I need to provide a DTI calculation or credit score for loans made to borrowers where the purpose of the loan was for a business use?

No. If a loan was for a business purpose, it is not necessary to underwrite to DTI. These loans will be tested for non-traditional characteristics and will be eligible even if mitigating factors do not exist. This applies to loans made to individuals for investment purposes (e.g., rental properties) and loans to non-natural borrowers. Non-natural borrowers include LLCs, corporations, etc.

11. What if the verification documentation in the file is dated after the date of the note, modification, renewal or refinance of the loan? Will the Bank ignore the documentation dated after the origination or modification date? What if the DTI has improved with the newer documentation?

The Bank's eligibility requirements relate to information used to underwrite the loan; therefore, the Bank will rely on documents obtained prior to origination. Subsequent documentation obtained for other loans will not be relevant to the original underwriting decision for the sample loan under review. Subsequent documentation should only be used if the original loan has been modified or renewed and the subsequent documentation relates to that modification or renewal.

12. The Bank will receive the shareholder bank underwriting guidelines prior to the review. Will the shareholder's DTI calculations be used for subprime/not subprime classification purposes?

The shareholder's underwriting guidelines will be reviewed to assess whether or not the shareholder underwrote the loan according to its guidelines. Reviewing the shareholder's guidelines is a separate exercise from re-underwriting the DTI. The re-underwriting of the DTI performed by the Bank will follow standard industry underwriting practices and will determine whether or not the loan is subprime or not subprime based on the evidence in the loan file.

13. Are loans ineligible if they don't have the underwriting documents?

For loans originated on or after July 10, 2007, the file must contain underwriting documents that enable the reviewer to determine if the loan is eligible and if the loan has subprime and/or nontraditional characteristics. The Bank cannot accept print-outs from an origination or underwriting system that do not include copies of the actual documents. For example, a notation of the credit score in the origination system is not adequate, a copy of the credit report must be provided. An indication of value is not adequate without a copy of the appraisal or other form of valuation. The borrower's DTI ratio is not adequate without the documents supporting the borrower's income.

14. Are all interest only (IO) loans ineligible? Example: An IO term that rolls to a principal and interest payment, such as a loan with a 5-year IO only payment that changes to a 15-year amortized payment at the end of the 5-year period.

IO loans would only be considered ineligible under the following two circumstances: 1) it was originated on or after July 10, 2007 AND 2) the shareholder could not provide sufficient mitigating factors for originating that loan.

Please note that if the loan was previously IO but converted to an amortizing loan (with no option for interest only in the future) it would not be considered IO. IO loans with amortizing conversions in the future that are still in the IO phase are considered IO. Make sure payment option ARM loans with an IO feature are categorized as payment option ARMS and not as an IO loan. Payment option ARM loans follow the same guidelines with respect to the origination date and adequate mitigating factors.

15. Why is it necessary for the Bank to re-calculate DTI prior to 7/10/2007?

The Bank's regulator requires that subprime and nontraditional exposure be measured, monitored, and limited. Part of this requirement is gathering information about the Bank's exposure to these loan types. The information is also reported to the Bank's senior management.

Subprime loans that were originated prior to 7/10/2007 are not automatically ineligible because they are subprime, and they do not require mitigating factors to be eligible, but they do need to be reported in a separate category on page 2 of the residential and HELOC QCRs.

16. What are the procedures for loans with underwriting memos that indicate the loan is full documentation but are missing income documentation in the file? Will these loans be ineligible?

The loan must have income documentation in the file for the Bank to be able to accurately calculate the DTI. If the income documentation is missing, then the loan will be viewed as non-traditional (low or no documentation). If the loan was originated after 7/10/2007, satisfactory mitigating factors must be found in the file for it to be considered eligible.

17. What are FHLBank Atlanta's definitions of traditional and non-traditional loan documentation?

	INCOME	ASSETS	EMPLOYMENT
TYPE OF DOCUMENTATION	**TYPE OF INFORMATION**		
Traditional Loan Documentation			
Full Documentation	**Fully verified by lender**	**Fully verified by lender**	**Fully verified by lender**
Alternative Documentation	**Lender accepts W2s, bank statements, verbal verification of employment**		
Desktop Underwriter (DU) / Loan Prospector (LP)	**Requires only verbal verification of employment in lieu of income documentation; reviewer will classify the loan as Full Doc as long as all conditions listed on the DU/LP approval have been met.**		
Non-Traditional Loan Documentation			
Stated Income/Verified Assets (SIVA)*	**Stated**	**Fully verified**	**Verbal verification**
Stated Income/Stated Assets (SISA)*	**Stated**	**Stated**	**Stated amount not verified**
No Ratio* ***or*** **No Income/Verified Assets (NIVA)***	**Not reported**	**Fully verified**	**Verbal verification**
No Income/No Assets (NINA)*	**Not reported**	**Not reported**	**Not reported**
No Doc*	**Not reported**	**Not reported**	**Not reported**

Loan Documentation Classifications

Traditional Documentation

Full Documentation: Year-to-date and previous two years' income and employment verified through W-2s, pay stubs, bank statements, or any other verifiable form of employment or income such as the previous years' federal tax returns for self-employed borrowers. Income verification letters from CPA firms may be accepted if tax returns have been extended or not yet filed. Additionally, if an automated underwriting finding from Fannie Mae Desktop Underwriter (DU), Freddie Mac Loan Prospector (LP), or Countrywide Loan Underwriting Expert System (CLUES) is in the file, the minimum income verification indicated in the recommendation will be considered full documentation. Minimum income verification recommendations from other automated underwriting systems have not been approved for treatment as full documentation loans. Asset information provided by borrower is re-verified by lender.

Alternative Documentation: This is a modification of the verification requirements of full documentation. It is not priced higher, but borrowers may have to exceed some credit threshold to qualify such as high credit scores, large assets, low LTV, etc. The intent is to save time. The shareholder is required to verify income and employment via a paystub (with YTD income), one month's bank statement and if available, one year for W-2.

Low Documentation

Stated Income/Verified Assets (SIVA): Income is stated by borrower and tested by lender for reasonableness. Employer and dates of employment are re-verified by lender. Asset information provided by borrower is re-verified by lender. Under SIVA, assets must be verified (usually statements) and must meet an adequacy standard such as, for example, 6 months of stated income and 2 months of expected monthly housing expense. Self-employed borrowers usually have no trouble meeting the asset requirement.

Stated Income/Stated Assets (SISA): Under this rule, both income and assets are disclosed but not verified. However, the source of the borrower's income is verified. Under SISA, the borrower must meet an adequacy standard such as, for example, 6 months of stated income and 2 months of expected monthly housing expense.

No Ratio (No Income/Verified Assets)**:** Under this rule, income is not disclosed, and therefore it is not used in qualifying the borrower. The standard rule that the borrower's housing expense cannot exceed some specified percent of income is ignored. However, assets and employment are disclosed and verified.

No Documentation

No Documentation: Income, assets, and employment are not disclosed.

No Income/No Asset (NINA): Income and assets are not disclosed, but employment is verified.

18. Should the shareholder remove all nontraditional and subprime loans?

No. The shareholder should not remove nontraditional and subprime loans with adequate mitigating factors. The shareholder should evaluate the creditworthiness of the borrower to determine the adequacy of the mitigating factors if the loan was originated on or after 7/10/07.

19. Do the mitigating factors have to be written in a memo or other document for a low credit score or high DTI loan to be eligible?

The mitigating factors will need to be supported by the documentation in the file, even if they are not explicitly stated in a memo or other document. The Bank prefers that the mitigating factors be noted within the file.

QUALIFIED AND NON-QUALIFIED MORTGAGE LOANS

1. How do the new Qualified Mortgage (QM) requirements impact the eligibility of residential loans reported to FHLBank Atlanta?

- The QM rule has the effect of dividing newly originated residential mortgages into QM or Non-QM loans.
- Residential 1-4 mortgages and home equity loans, including new originations subject to the QM rule, will continue to be subject to all other Bank eligibility requirements and will be reviewed for eligibility through the Collateral Verification Review process.
- Home equity lines of credit are not covered transactions under the QM rule. Therefore, home equity lines of credit are not subject to a QM or non-QM designation.
- FHLBank Atlanta will accept non-QM loans as eligible collateral, subject to all other Bank eligibility requirements for residential 1-4 mortgages and home equity loans.

BANK SECRECY ACT AND ANTI-MONEY LAUNDERING REQUIREMENTS

1. **How do the new 2014 regulations subjecting the FHLBanks to the Bank Secrecy Act impact FHLBank Atlanta and its shareholders?**

   FHLBank Atlanta must establish an effective Anti-Money Laundering (AML) program and file suspicious activity reports (SARS) with the Financial Crimes Enforcement Network (FinCEN). FHLBank Atlanta will file a SAR any time it identifies possible fraud or other suspicious activity relating to mortgage loan collateral, Affordable Housing Program-assisted transactions, correspondent banking services, or other FHLBank Atlanta products and services. FHLBank Atlanta will be prohibited from disclosing the existence of a filed SAR to customers and other external parties.

   FHLBank Atlanta has updated its credit and collateral policy in connection with the implementation of its AML program, as follows:

   - Each shareholder must maintain AML controls effective to prevent the use of the Bank's products and services to facilitate money laundering, terrorist financing, fraud, or other illicit activity.

   - No shareholder may use, or permit the use of, its accounts maintained at the Bank as "payable through accounts."

   - The correspondent banking policies appendix in the Member Products and Services Guide has been amended to clarify that it (including the new provisions described above) applies to all shareholders and borrowers.