

Credit Services Webinar

Updates on Credit Risk Rating Models, Credit Rating Trends, and Revised Credit Availability Policy

June 29, 2016 – 10:00 a.m.



Agenda

- Overview
- Credit risk rating models – banks and credit unions
- Credit risk rating trends – aggregate as well as by state
- New methodology linking FCA to credit risk ratings
- Material adverse effect clause and responsibilities
- Q&A

Credit Department Overview

- The credit department is responsible for the review and daily monitoring of all secured shareholders and unsecured counterparties with which the Bank conducts business
- The monitoring process includes quarterly credit rating validations and caseload reviews on select shareholders
- The credit department manually approves advance and LOC transactions for shareholders with higher credit risk ratings
- The credit department establishes and monitors credit limits for all shareholders and unsecured counterparties

Credit Rating Model Overview

- The Bank uses proprietary credit risk rating models as part of its risk-focused approach to credit underwriting and monitoring
- The Bank has separate models for banks, credit unions, and insurance companies
- The models are recalibrated at least every three years to capture the most recent failure data and trends
- The bank model was last recalibrated in 2013 and first put into production using Q4 2013 financial data
- The credit union model was recalibrated in 2015 and put into production using Q2 2015 financial data

Credit Risk Rating Model Overview

- The credit rating models assign ratings from 1 through 10 (1 being the healthiest rating and 10 the riskiest)
- Credit analysts manually review credit ratings each quarter for shareholders with higher ratings
- Bank and credit union models are based upon increasing probability of default
 - On average, shareholder failures identified as credit rating 10s approximately 18 months in advance (through 5/31/16)
 - 189 FHLBank Atlanta shareholders have failed since August 2008

Credit Risk Rating Overview

Credit Risk Rating 1-8

- No impact to shareholder

Credit Risk Rating 9

- Annual Collateral Verification Review (CVR) required if total collateral exposure is not fully covered by cash and securities
- Credit availability may be reduced
- May limit participation in various programs such as Residential Available For Sale (RAFS) and various Mortgage Partnership Finance® (MPF®) programs (special approval is required)

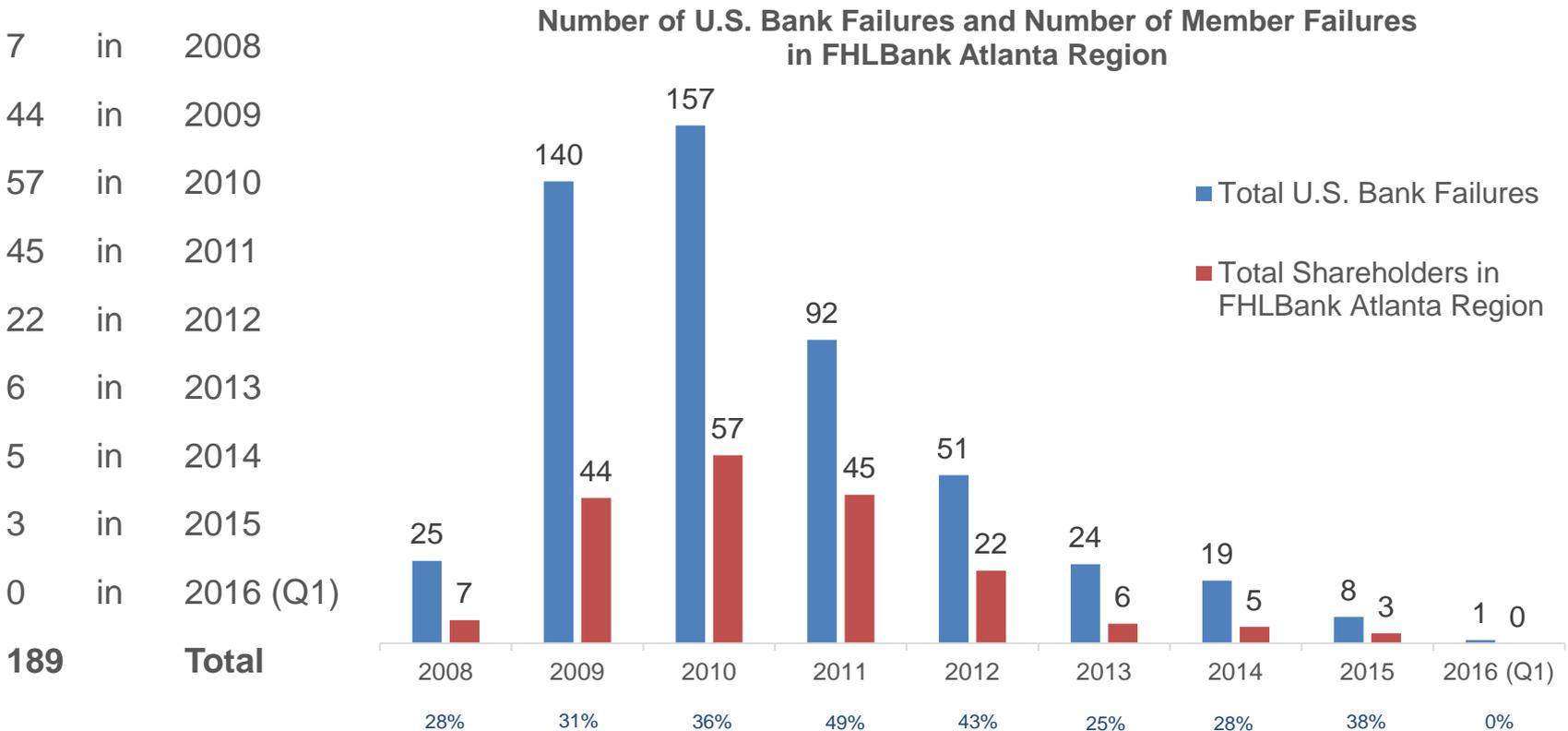
Credit Risk Rating Overview

Credit Risk Rating 10

- Shareholder is required to deliver loan collateral if they are a credit rating 10 for two consecutive quarters or a CAMELS 5
- Not eligible for certain programs: RAFS and MPF programs
- Annual CVR required if total collateral exposure is not fully covered by cash and securities
- More conservative discounts applied to all loans, thus lower lendable collateral value (LCV)
- Credit availability may be reduced
- Shareholder may be required to collateralize prepayment fees
- Advance terms may be restricted to 36 months or less
- Monthly Qualifying Collateral Report (QCR) or monthly loan status updates may be required

Bank Failures

FHLBank Atlanta has successfully managed all failures with no credit losses.



Credit Risk Rating System – Banks

The risk rating system for banks generates credit ratings based on the following financial measures:

- **Total risk-based capital ratio**
- **Four-quarter weighted-average ROAA**
 - Weighted 40%, 30%, 20%, 10%, with the most recent quarter having the highest weighting of 40%
- **Liquidity ratio**
 - Cash + unencumbered securities + fed funds sold + trading assets as a percentage of liabilities (SNL ratio)
- **Adjusted loans 30-89 days past due as a percentage of total loans**
 - Adjusted for loss-share and government guaranteed loans

Credit Risk Rating System – Banks cont.

- **Modified Texas ratio**

- Adjusted non-performing assets (adjusted for loss-share and government guaranteed loans) + restructured loans as a percentage of tangible equity + ALLL (SNL ratio)

- **Institution asset size**

- Institutions with an asset size above \$1 billion receive a slight bump in rating

Credit Risk Rating System – Banks

Certain triggers will automatically rate a financial institution with a 9 or 10 rating:

Triggers for a Credit Rating 9

- Modified Texas ratio of 100% or greater, or
- Less than well capitalized per standard regulatory guidelines

Triggers for a Credit Rating 10

- Leverage capital ratio < 5%, or
- Total risk based capital ratio < 9%, or
- Modified Texas ratio of 150% or greater, or
- Tangible common equity ratio < 4%

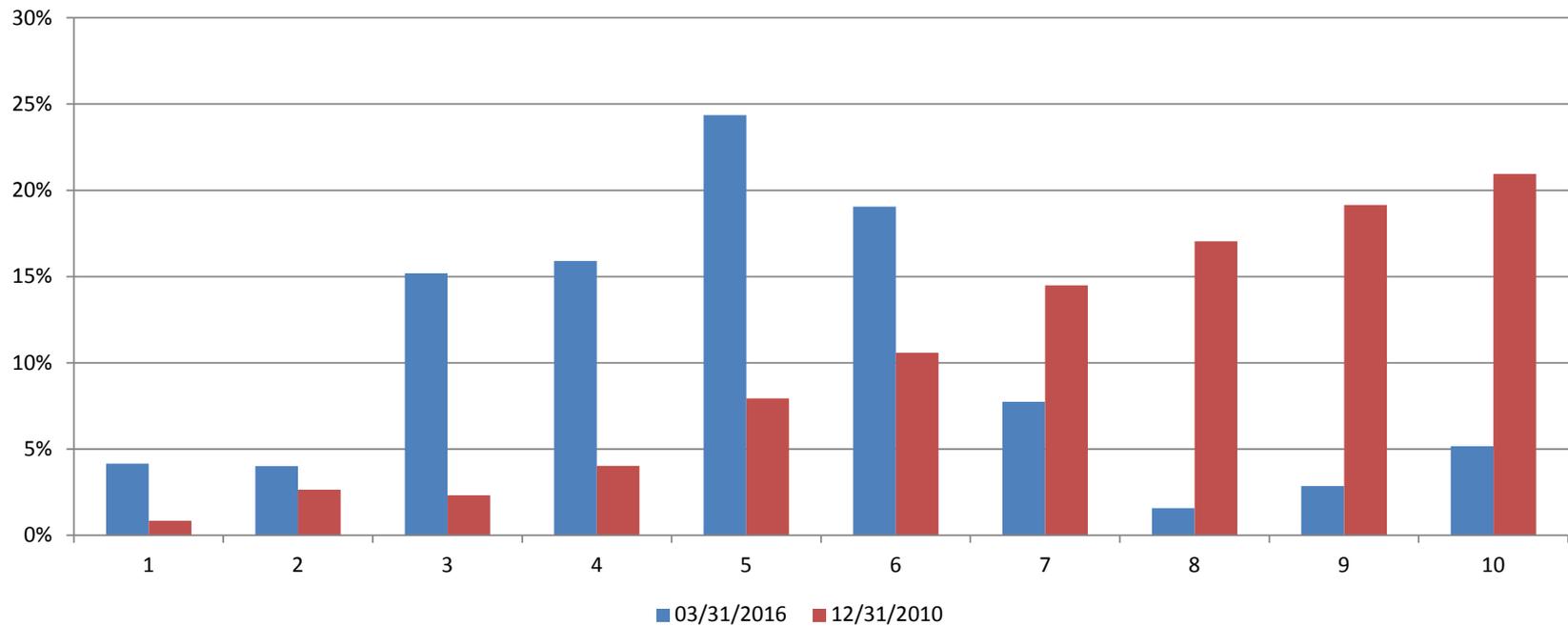
Credit Risk Rating – Statistics

Average Ratios for Banks per Risk Rating

Credit Rating Banks 03-31-16	4 Quarter Weighted Average ROAA (%)	RBCR (%)	Modified Texas Ratio (%)	Adj. 30-89 PD Loans (%)	Liquidity (%)	Size
1	1.06	22.17	5.58	0.32	39.11	0.66
2	1.03	25.70	5.18	0.41	34.25	0.11
3	1.11	22.77	7.61	0.51	32.34	0.20
4	0.96	19.42	10.46	0.67	28.29	0.17
5	0.84	17.76	15.30	0.89	25.64	0.13
6	0.64	16.90	18.91	1.27	22.12	0.11
7	0.47	15.54	30.62	1.28	20.36	0.16
8	-0.05	14.28	35.87	2.36	23.99	0.00
9	-0.44	13.84	79.94	1.79	20.56	0.00
10	-0.47	8.89	224.80	1.43	19.37	0.00

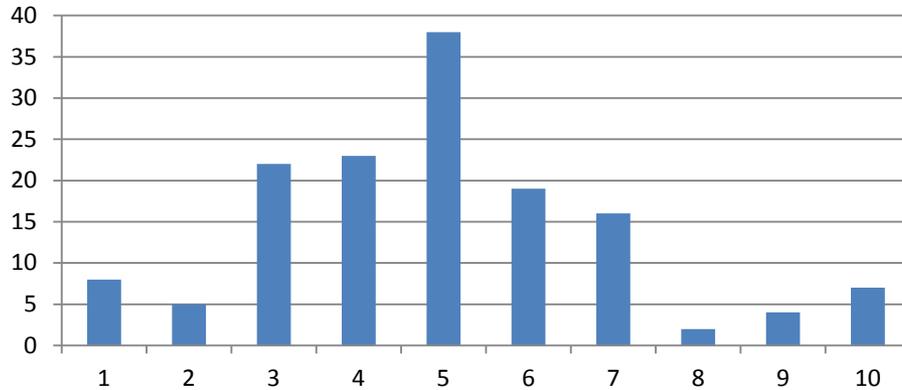
Credit Risk Rating – Statistics

Credit Score Banks
03/31/2016 vs. 12/31/2010

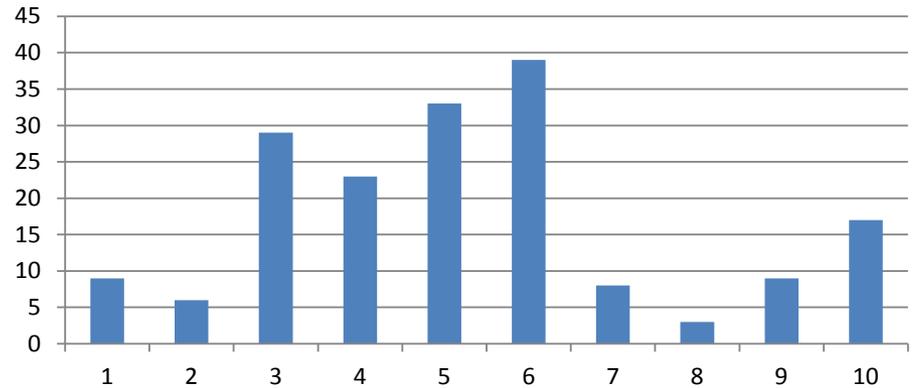


Credit Risk Rating – Statistics

Banks 03-31-16
Florida

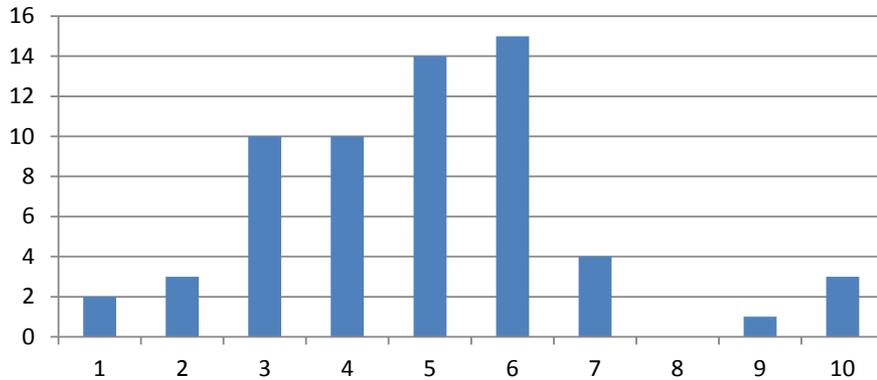


Banks 03-31-16
Georgia

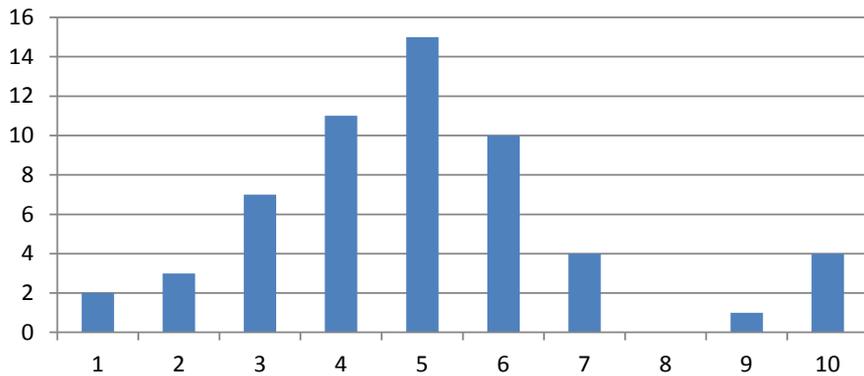


Credit Risk Rating – Statistics

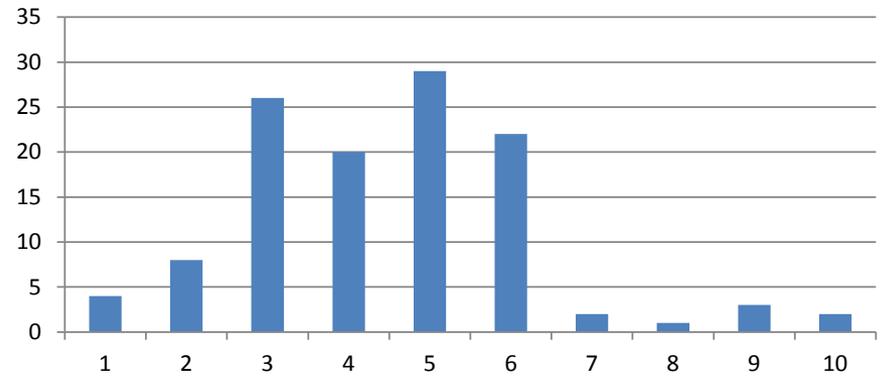
Banks 03-31-16
North Carolina



Banks 03-31-16
South Carolina

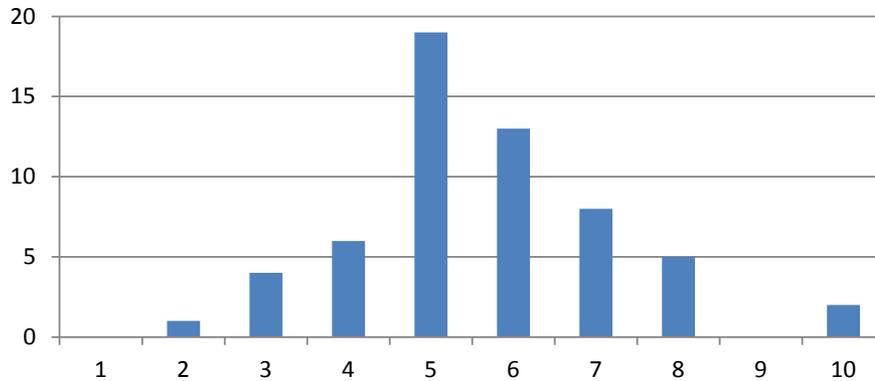


Banks 03-31-16
Alabama

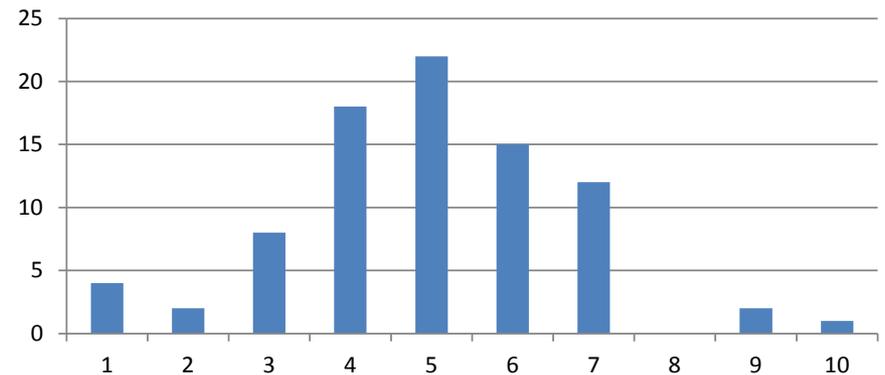


Credit Risk Rating – Statistics

Banks 03-31-16
Maryland



Banks 03-31-16
Virginia & D.C.



Credit Risk Rating System – Credit Unions

The risk rating system for credit unions generates credit ratings based on the following financial measures:

- **Net Worth / Total Assets**
- **Four-quarter weighted-average ROAA**
 - Weighted 40%, 30%, 20%, 10%, with the most recent quarter having the highest weighting of 40%
- **Modified Texas ratio**
 - Loans 60+ days delinquent + OREO + all other repossessed assets as a percentage of Total Equity + ALLL
- **Liquid assets as a percentage of short-term liabilities and shares**
 - Liquid assets defined as the sum of cash on hand, cash on deposit, cash equivalents, and investments less than or equal to one year

Credit Risk Rating System – Credit Unions cont.

- **Institution asset size**
 - Larger institutions receive more favorable credit rating

Certain triggers will automatically score a financial institution with a 9 or 10 rating:

- Net Worth / Total Assets < 6.50% - Automatic credit risk rating 10
- Net Worth / Total Assets < 7.00% - Automatic credit risk rating 9

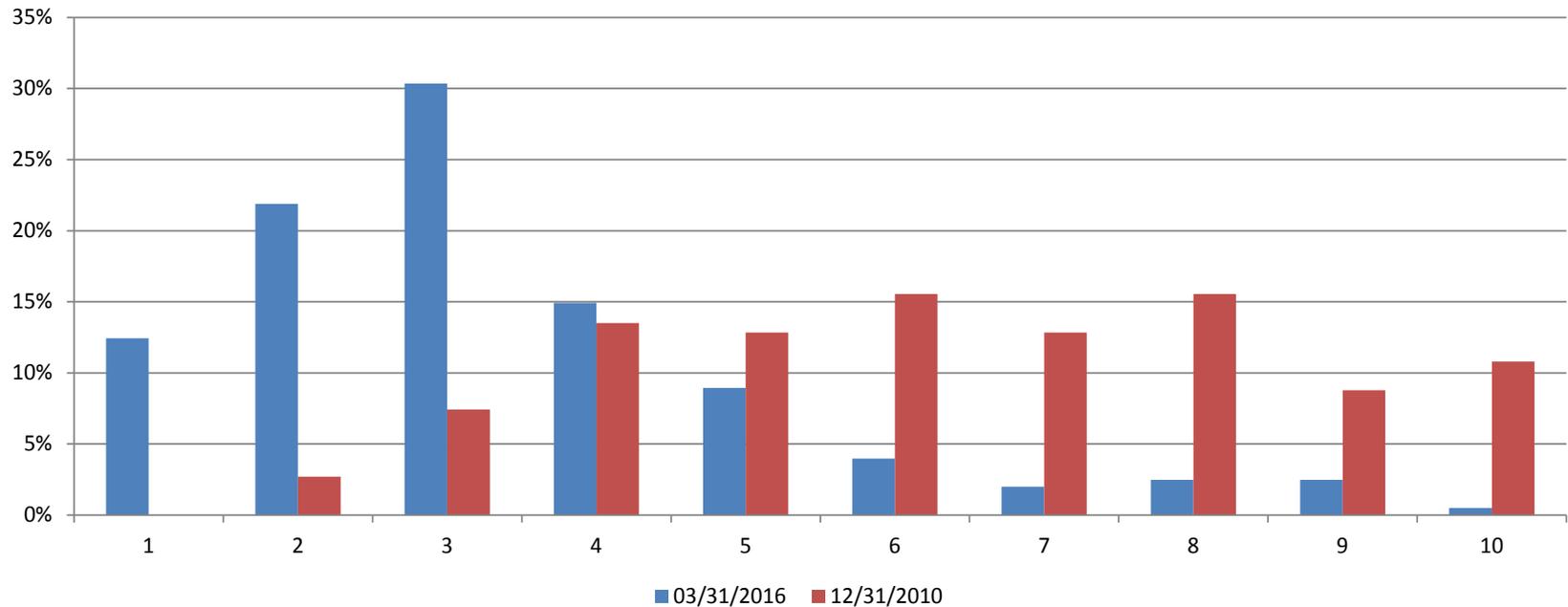
Credit Risk Rating – Statistics

Average Ratios for Credit Unions per Risk Rating

Credit Rating CUs 03-31-16	WROAA (4Q)	NWA	Liq. Assets	Texas Ratio	Total Assets (\$000s)
1	0.89	11.92	25.36	2.64	1,634,652
2	0.75	11.98	18.96	3.54	3,056,853
3	0.53	11.18	21.26	4.76	835,032
4	0.53	9.83	22.28	6.00	491,463
5	0.39	9.10	22.04	6.91	2,141,339
6	0.36	9.61	26.24	15.11	351,638
7	-0.49	9.58	22.27	8.96	409,953
8	0.04	9.30	21.66	27.08	103,082
9	-0.51	11.22	25.51	20.14	141,480
10	-1.31	6.21	22.78	42.92	311,102

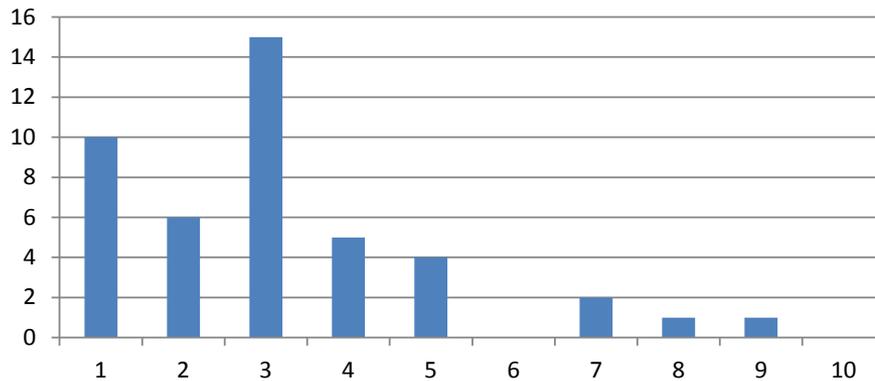
Credit Risk Rating – Statistics

Credit Score Credit Unions 03/31/2016 vs. 12/31/2010

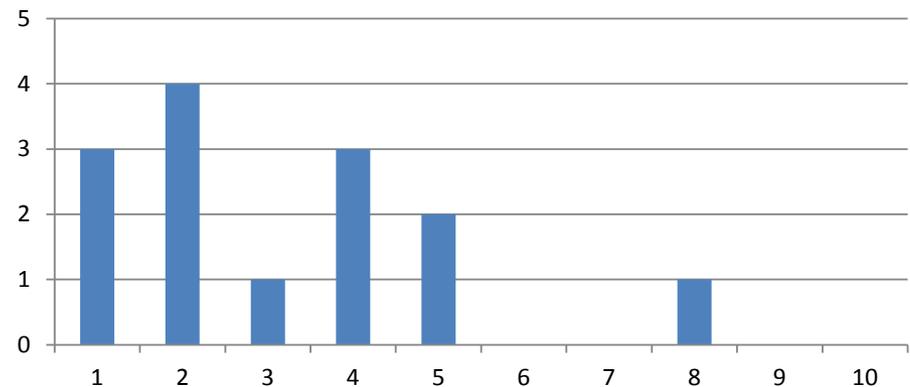


Credit Risk Rating – Statistics

Credit Unions 03-31-16
Florida

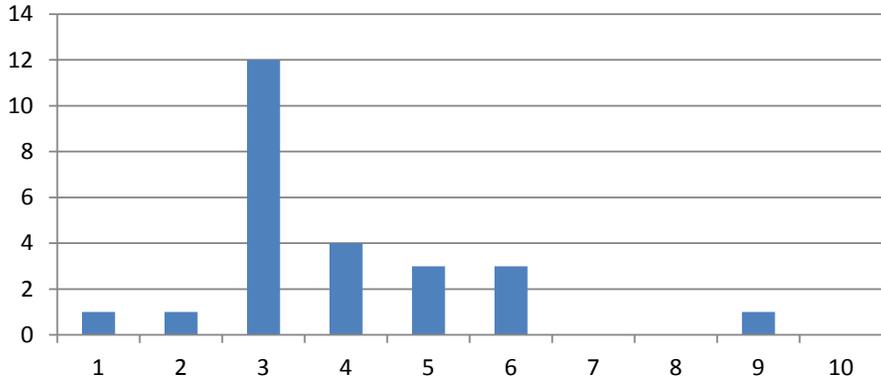


Credit Unions 03-31-16
Georgia

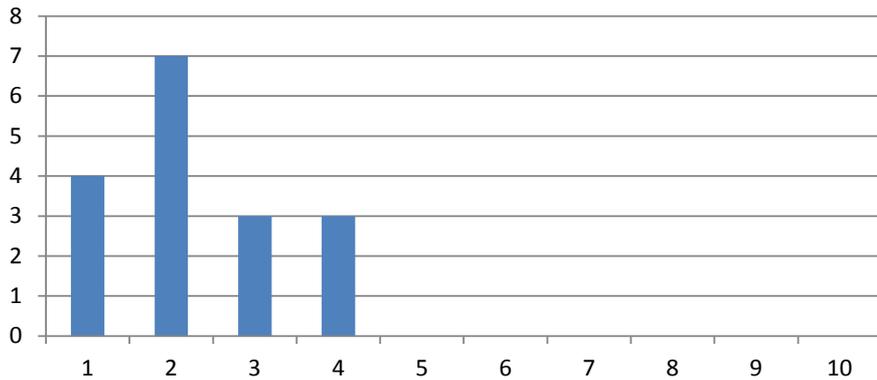


Credit Risk Rating – Statistics

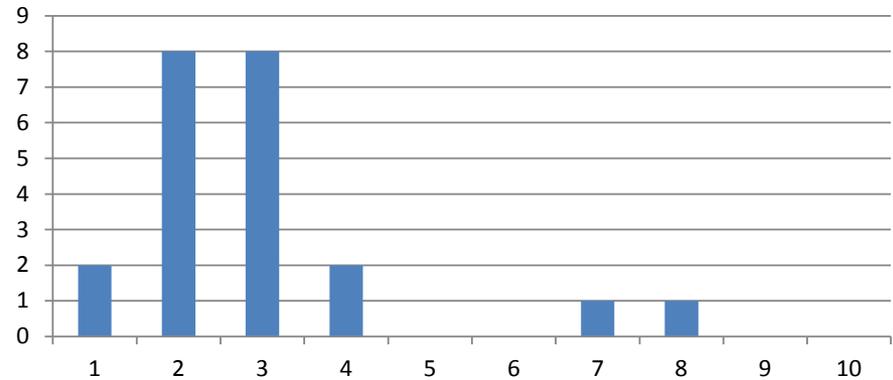
Credit Unions 03-31-16
North Carolina



Credit Unions 03-31-16
South Carolina

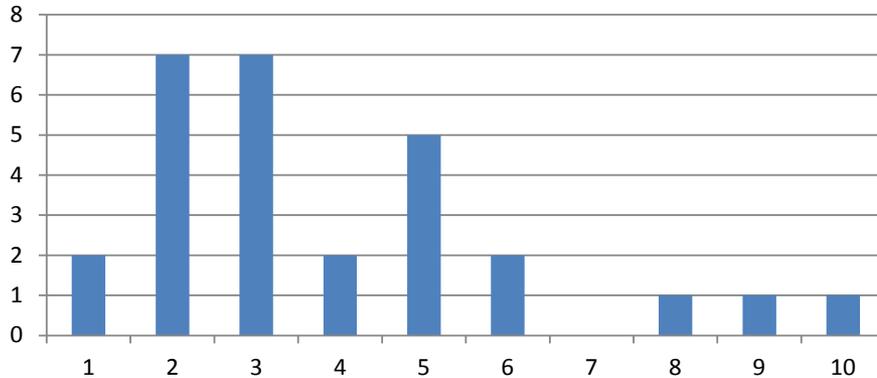


Credit Unions 03-31-16
Alabama

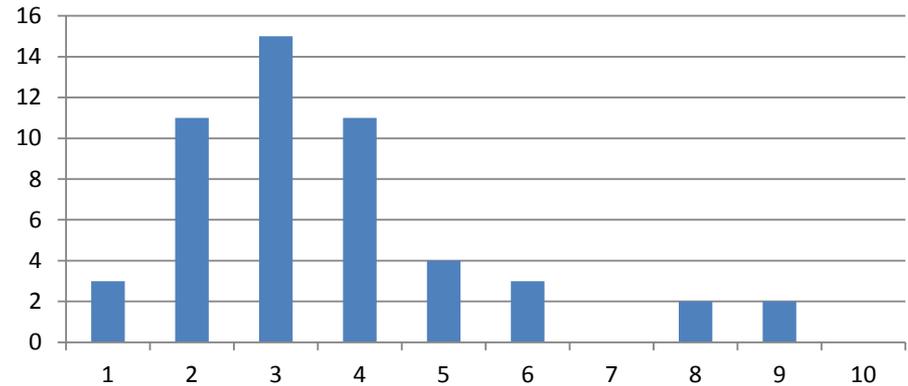


Credit Risk Rating – Statistics

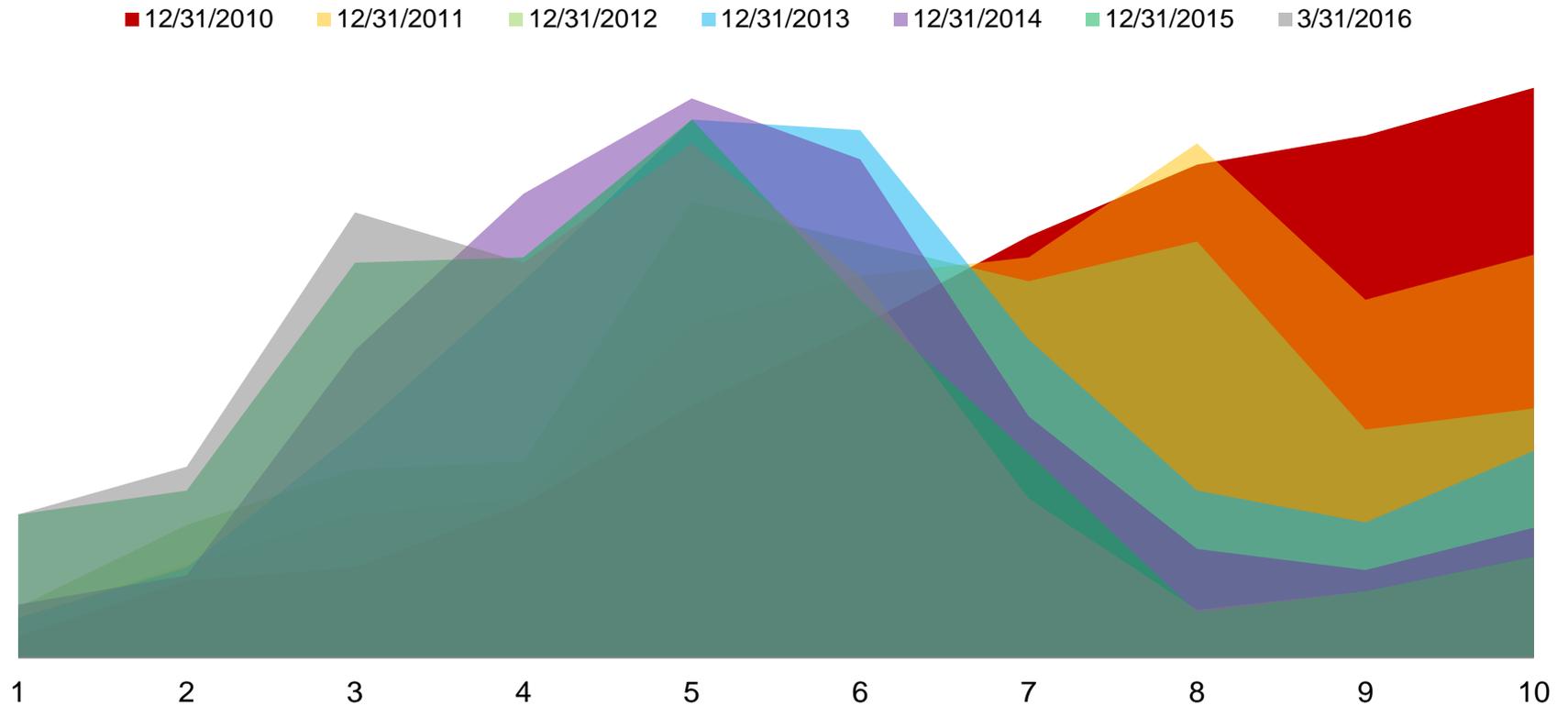
Credit Unions 03-31-16
Maryland



Credit Unions 03-31-16
Virginia & D.C.



Credit Rating Trends



Credit Rating Trends

Average Credit Risk Rating	
12/31/2010	7.37
12/31/2011	6.87
12/31/2012	6.26
12/31/2013	5.76
12/31/2014	5.30
12/31/2015	4.75
03/31/2016	4.66

Credit Rating 9 & 10 %	
12/31/2009	42.6%
12/31/2010	37.3%
12/31/2011	26.9%
12/31/2012	17.6%
12/31/2013	13.0%
12/31/2014	8.6%
12/31/2015	6.9%
03/31/2016	6.8%

Credit Availability Overview

Credit Limits

- For banks and credit unions, credit limits are generally established based on a floating availability expressed as a percentage of the shareholders assets (a/k/a FCA)
- For insurance companies, credit limits are generally set at a fixed dollar amount based on the lower of 10% of net admitted assets or 50% of capital and surplus
- FCA's in excess of 30% must be approved by the Bank's board of directors and are subject to additional conditions, which can be found in the Member Products and Services Guide (MPSG)

Revised Credit Availability Policy

- Effective July 6, 2016, a new methodology to determine FCA for shareholders will be implemented
- Links FCA to credit risk ratings
- In general, depository institutions (banks and credit unions) that do not have an FHLBank Atlanta “national” or “regional” account designation will be assigned a credit limit based on their FHLBank Atlanta credit risk rating as follows:
 - **Credit Risk Rating of 1 to 8 – FCA will equal 25 percent of total assets**
 - **Credit Risk Rating of 9 or 10 – FCA will be reviewed quarterly**

Revised Credit Availability Policy

- Exceptions to this risk rating-based FCA methodology
 - Shareholders that have an FCA of more than 25% will not be affected and will continue to have access to their current FCA
 - Shareholders that have a capped credit availability at a fixed dollar amount
 - Shareholders for which FHLBank Atlanta does not have a blanket lien
 - Insurance companies
 - Housing associates/authorities (HFAs)
 - Community development financial institutions (CDFIs)

Material Adverse Effect Reporting

- What is a material adverse effect?
- Common examples of material adverse effect:
 - Any type of fraudulent activity
 - Examiners make a bank restate two years of financial information
- Shareholders are required to notify FHLBank Atlanta of any material adverse effect, as detailed in the MPSG

Material Adverse Effect Reporting

- Shareholders can report events using the following email account: AdverseEventReport@fhlbatl.com
- The following information should be included in a report:
 - Institution name and shareholder account number
 - Contact name, phone number, and e-mail address
 - Brief description of material adverse event and date event occurred

Questions and Answers

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Thank You

