

Maximizing the Value of Your FHLBank Atlanta Cooperative

November 18, 2015

Scott Brennan – Director of Sales

Rob Kovach – Chief Credit Officer



Disclaimer

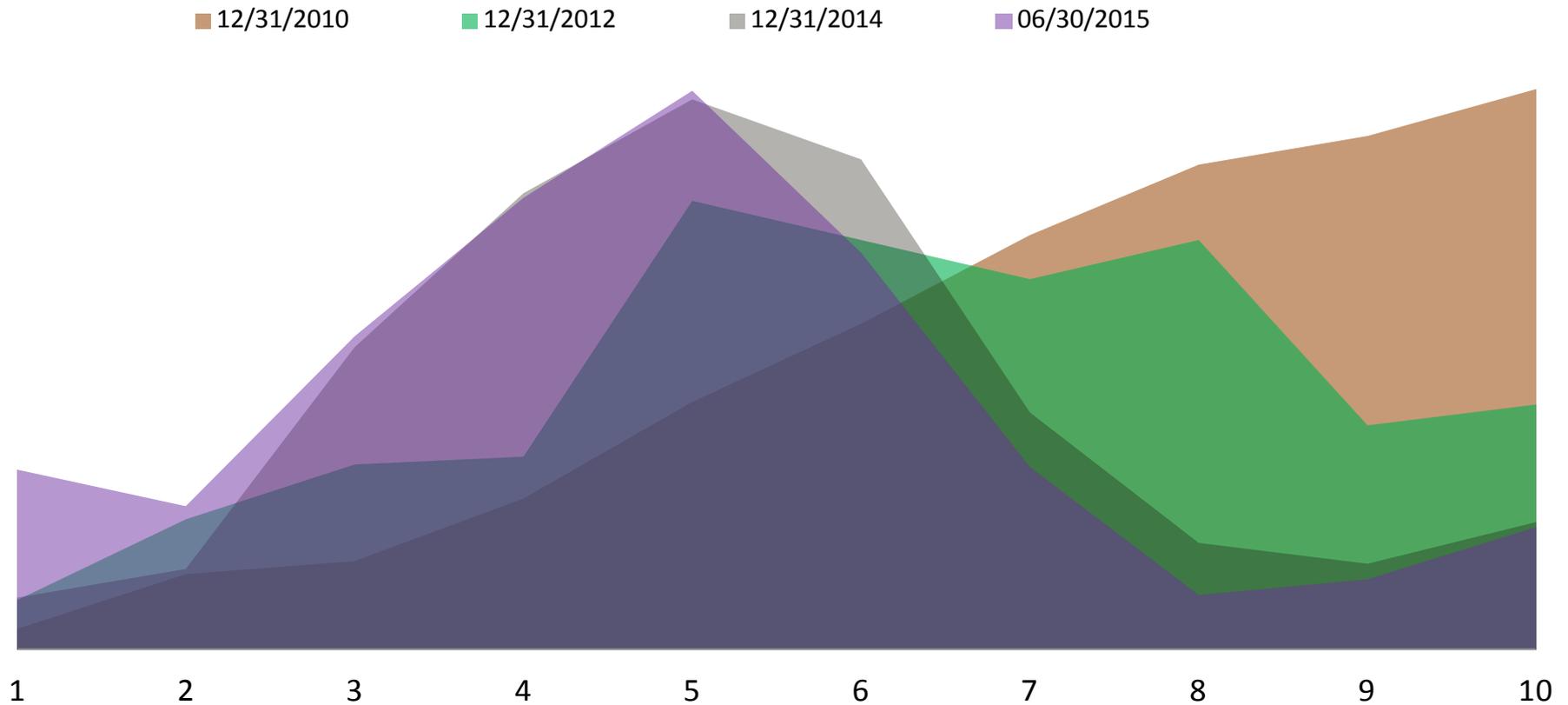
- The information, analysis, and applications contained herein should not be relied upon as a substitute for your own business judgment, and independent review. You should consult your own regulatory, tax, business, investment, financial, and accounting advisors, and should perform your own suitability analysis, before entering into transaction or structure described herein. Sophisticated financial products are risky and are not appropriate for all persons. FHLBank Atlanta is not a registered investment advisor and does not advise persons on the advisability of investing in, purchasing, or selling sophisticated financial products or the means by which any such product may be utilized.
- Nothing in the information herein should be considered an offer to sell or a solicitation of an offer to buy any securities or derivative products. FHLBank Atlanta is not obligated to update or keep current the information or applications contained herein. FHLBank Atlanta may own or have a position relative to certain securities or other financial instruments discussed in this information or used in this analysis. Neither FHLBank Atlanta nor any of its directors, officers, employees, agents, attorneys, or representatives shall have any liability for any loss or damage arising out of the use of all or any part of this information.

Agenda

- Credit Update
- Shareholder opportunities to maximize collateral
- Deposit trends
- Shareholder opportunities for strategic funding
- Opportunities to utilize FHLBank Atlanta's Letter of Credit

Shareholder Credit Score Overview

Shareholder credit quality continues to improve



Collateral Expansion Ideas

**Tips to take advantage of
collateral expansion opportunities**

Idea #1

Optimize Loan Collateral

Idea #1 – Optimize Loan Collateral

- Throughout the recent crisis, regulators have stressed the importance of having multiple liquidity providers; FHLBank Atlanta supports this diversity requirement
- FHLBank Atlanta accepts four key loan portfolios to provide liquidity to shareholders:
 - Residential first lien 1-4 family mortgage loans
 - Home equity second lien loans and lines of credit
 - Commercial real estate first lien mortgage loans
 - Multifamily (MF) first lien mortgage loans

Opportunity #1 – Report All Four Loan Collateral Types and Diversify Liquidity Providers

Manage your institution's loan collateral efficiently

- Report all four loan portfolios to FHLBank Atlanta to maximize Lendable Collateral Value (LCV)
- Take other real estate related (e.g., construction loans) and non-real estate related loans (commercial and industrial, auto, credit cards, and personal loans) to the Federal Reserve Bank (FRB)
- **Call to Action** – This tactic drives efficient use of your loan collateral by maximizing your FHLBank Atlanta LCV and diversifying your other liquidity sources

Idea #2

FHLBank Atlanta Provides LCV for Residential Available for Sale (RAFS) Collateral

Opportunity #2 – Report RAFS Collateral

Participate in reporting RAFS loan collateral

- FHLBank Atlanta's haircuts, market values, and funding rates are competitive versus your typical warehouse lending facility
- FHLBank Atlanta's RAFS eligibility rules include a reasonable set of requirements based on the risks associated with RAFS:
 - Daily reporting
 - Separate Collateral Verification Reviews (CVR)
 - Credit scores 1 – 8
- **Call to Action** – Report RAFS collateral as a way to fund your mortgage origination activities

Idea #3

FHLBank Atlanta Provides Reporting Options on Commercial Real Estate (CRE) and Multifamily (MF) Loan Data

Idea #3 – Report More CRE/MF Data

- FHLBank Atlanta offers three CRE/MF reporting levels:
- Level 1 – Unpaid Principal Balance (UPB) only
- Level 2 – UPB and Current Loan-to-Value (CLTV) ranges
- Level 3 – UPB, CLTV, Debt Service Coverage Ratio (DSCR), and Years-to-Maturity (YTM)
- Haircuts and market values are correlated to the level of reporting; as more data is reported at each level, the haircut declines as the data uncertainty decreases
- Market values at each level will be based on the data provided; if a data point is not provided, conservative assumptions are applied
- Level 1 Example – UPB only; conservative assumptions are applied to CLTV (>80%) and YTM (>7 yrs)

Opportunity #3 – Report Level 2 or 3 CRE/MF Data

Provide a higher level of CRE and MF loan collateral reporting

- Level 1 to Level 2 CRE Example – Haircut declines by 7% and the market value assigned will increase if any of the loans have CLTVs $\leq 80\%$; only additional data required is CLTV, which is equal to current UPB/most recent available valuation
- Level 2 to Level 3 CRE Example – Haircut will decline by another 2% and the market value will be a function of credit characteristics reported – CLTV, DSCR, and YTM
- **Call to Action** – At a minimum, provide Level 2 CRE and MF loan collateral reporting to take advantage of lower haircut and increased LCV

Idea #4

Provide Loan Listing Data

Idea #4 – Provide Loan Listing Data

- Loan Listings – Monthly electronic files that contain data on individual pledged residential first and HELOC/HEL first and second lien loans
- Data – Approximately 65 fields per loan that include loan amount, origination date, rate, term, zip code, LTV, FICO, DTI, etc.
- Market Values – Loan listings allow FHLBank Atlanta to assign customized market values that are updated monthly; “average” market valuations are provided to shareholders filing Qualifying Collateral Reports (QCR)
- FHLBank Atlanta requires shareholders with > \$1 billion in exposure to provide loan listings, but the opportunity exists for all shareholders

Opportunity #4 – Provide Loan Listing Data

Provide a loan listing on your institution's pledged residential loan and HELOC/HEL collateral

- Potential Benefit #1 – Loan listings will result in customized market valuations; “above average” market valuations will result if your institution's portfolio has “above average” credit characteristics
- Potential Benefit #2 – FHLBank Atlanta now has the capability to stress loan listings against selected Home Price Index scenarios; stressed analytics may be helpful for liquidity planning purposes and beneficial to share with your regulator
- **Call to Action** – Provide loan listings to FHLBank Atlanta to receive customized and stressed market valuations

Idea #5

Learn Collateral Eligibility Rules

Idea #5 – Learn Collateral Eligibility Rules

- FHLBank Atlanta provides collateral training opportunities that may take several forms:
 - Regional collateral workshops
 - Periodic online collateral webinars
 - Customized onsite training sessions
 - FHLBank Atlanta website: www.fhlbatl.com
 - Sign up for email updates
- FHLBank Atlanta performed over 50 such training sessions in 2014 and 2015
- **Call to Action** – Scrub or pre-screen portfolios for the most common exceptions prior to your next CVR

Idea #5 – Learn Collateral Eligibility Rules

	Top 2014 CVR Exception Rates	Tips for Avoiding
1	LTV Issues	For purchase money mortgages, use the lower of purchase price or appraised value, unless the loan seasoning exceeds 12 months and a more recent valuation has been obtained
2	Ineligible Property Type	Filter out construction loans, ineligible special purpose properties, and land loans
3	Lien Position Issues (Inferior lien or missing lien verification)	Pre-screen portfolios to include only first lien RES and first and second lien HELOCs, CRE, and MF; ensure that satisfactory lien verification is on file
4	Missing Original Note or Not Fully Funded	Original notes should be properly executed and available for review; note also needs to be fully funded (e.g., no revolvers)
5	Manufactured Homes	Proof of conversion from personal property to real property is required
6	Environmental Issues	An unresolved environmental issue will make a loan ineligible

Opportunity #5 – Participate in FHLBank Atlanta Training

- Attending a session is a great way to hear about the latest eligibility changes and tips to maximize LCV
- Training results have been very positive – shareholders that have participated in training opportunities have seen declines in exception rates and increases in LCV
- Talk to your Relationship Manager or Collateral Relationship Specialist if you think an onsite training session would be beneficial for your institution
- **Call to Action** – Attend an FHLBank Atlanta collateral workshop, webinar, or schedule a customized onsite training session

Opportunity #6

Municipals Are Now Eligible!

Opportunity #6 – Pledge Muni Collateral

- We have great news!
- FHLBank Atlanta now accepts municipal securities as part of its strategy to maximize the liquidity of your institution's securities portfolio
- Municipal securities must be delivered to a safekeeping account at FHLBank Atlanta and will be subject to specific eligibility requirements when pledged as collateral
- Once approved for eligibility, the municipal securities collateral will become part of your institution's general collateral pool

Opportunity #6 – Pledge Muni Collateral (cont.)

- FHLBank Atlanta's municipal securities will be subject to the following eligibility rules:
 - Bond must be rated AAA or AA and have proceeds that were used for real estate purposes
 - Each bond must have a documented real estate nexus factor (e.g., 85%)
 - Ascertaining/documenting this factor may be labor intensive and require a time investment by your institution and FHLBank Atlanta
 - 100% of bond will need to be pledged and the real estate nexus factor (e.g., 85%) will be applied for eligibility purposes (to the market value and the haircut)
- **Call to Action** – Pledge your municipal securities to increase LCV at FHLBank Atlanta

Summary of Credit and Collateral Opportunities

	Opportunity	Effort (Est.)	Benefit (Est.)
1	Optimize Loan Collateral Pledging w/FHLBank Atlanta and FRB	L/M	H
2	Pledge RAFS Collateral	H	H
3	Report Level 2 CRE/MF Data	L	M/H
4	Provide Loan Listing Data	H	H
5	Participate in Training	L	M/H
6	Pledge Municipal Securities	M/H	H

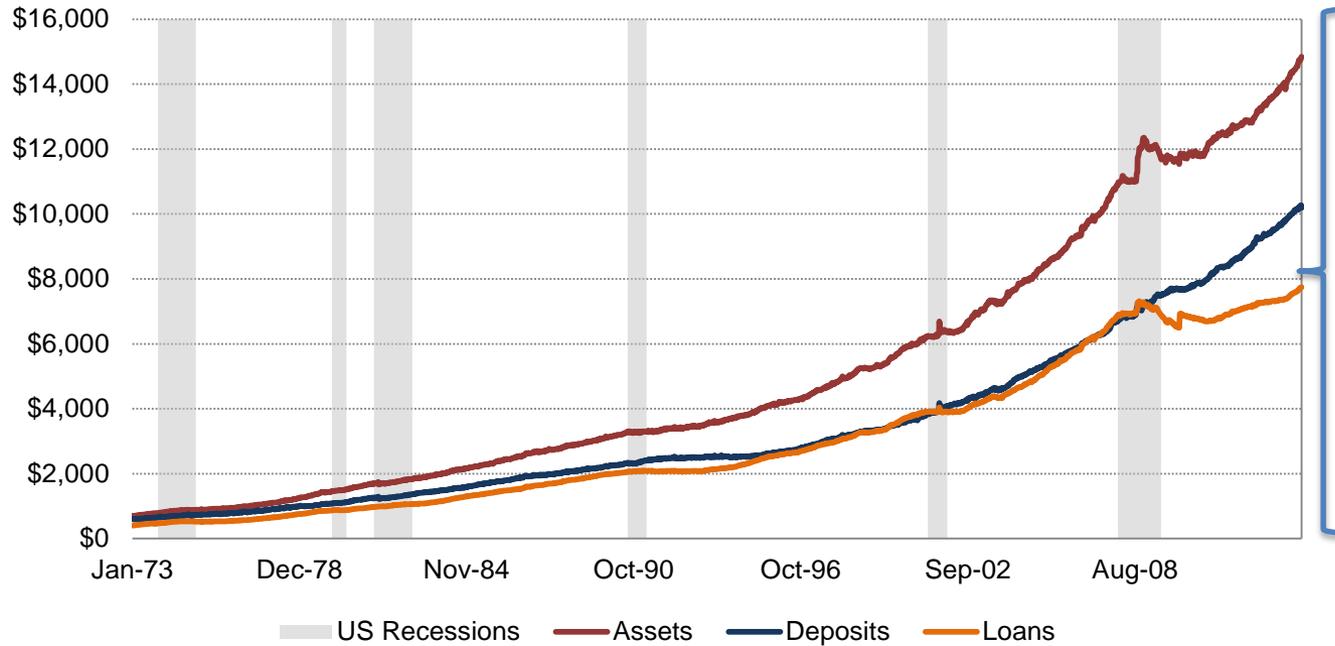
Our goal is to partner with each shareholder to create more borrowing flexibility and lendable collateral value!

Deposit Trends and Funding Opportunities

Deposits – How Likely is a Run-off?

- Based on historical trends, the current lack of loan demand is driving the higher levels of deposit liquidity, not “hot” deposit money that will run-off once rates rise:

US Commercial Banks Growth Trends



Largest divergence of loan growth versus deposit growth in over 40 years



Source: Federal Reserve Research

There is nothing wrong with simple

- Fixed Rate Credit Advances



- Fixed rate, fixed term until maturity
- Funds as soon as same day

Low Cost Short-Term Funding

2wk: 0.24%

1mo: 0.22%

3mo: 0.37%

6mo: 0.54%

- Funded off of discount notes
- Borrow online up to 6-month maturities

Dividend Impact

4.25% B2 Stock

4.53% Dividend

0.18% Savings

Callable Fixed Rate Credit (FRC) Floater

- Keep borrowing costs low by accessing term funding at short-term interest rates
- Maximize balance sheet flexibility with callable feature
- Potentially reduce FDIC insurance premium on secured borrowing calculation

Example

Five-Year Advance Priced Off of Three-Month Resets



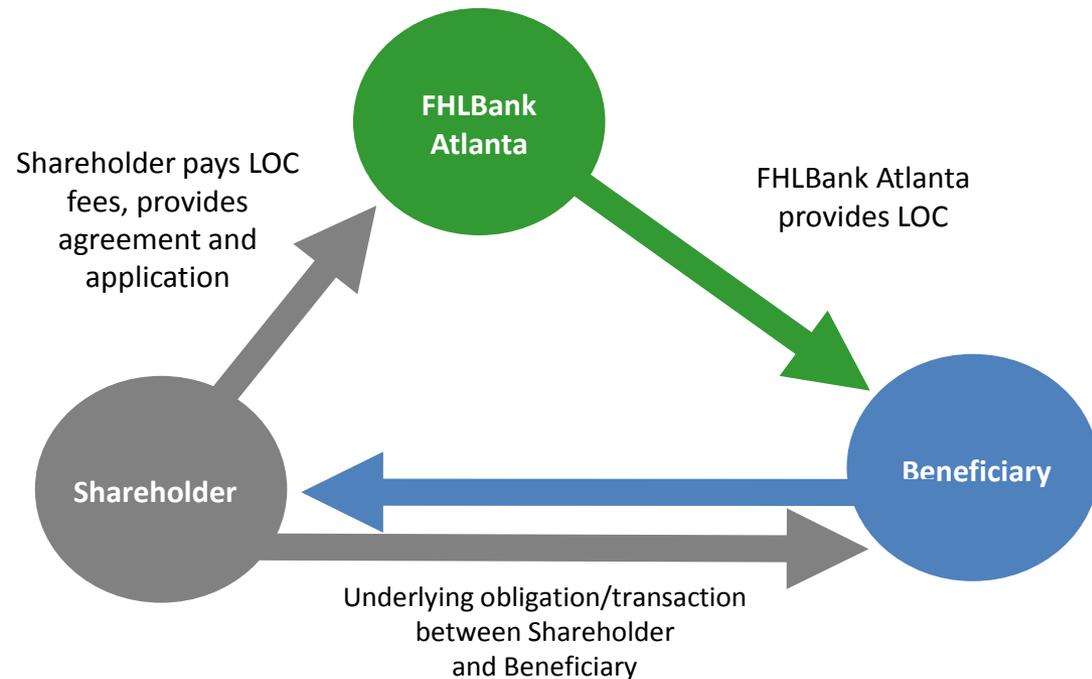
Forward Starting Advance

- Manage around current **excess liquidity** concerns
- Principal is **not placed on balance sheet** until the forward starting date
- Shareholder is contractually obligated to take down the funding at the forward date
- Position liabilities today without having to increase balance sheet size

Advance \$5mm	Rate	Int. Exp.
5yr FRC Hyb	1.92%	\$490,000
2yr Fwd, 3yr FRC Hyb	2.36%	\$354,000
7yr FRC Hyb	2.35%	\$822,500
2yr Fwd, 5yr FRC Hyb	2.74%	\$685,000

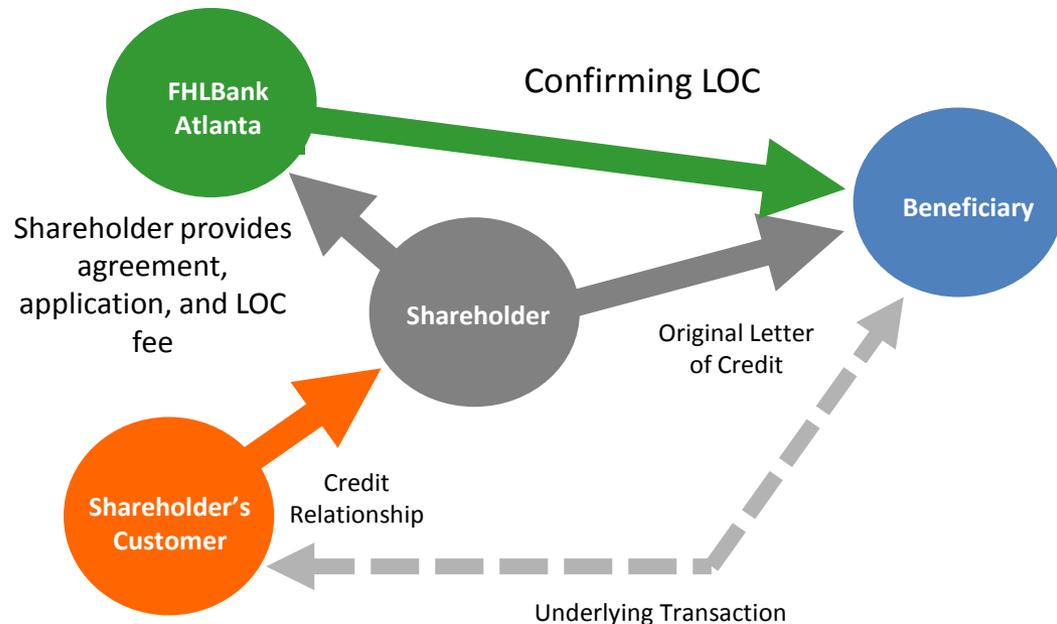
Standby Letter of Credit

- Functions as an independent guaranty for a shareholder's obligation
- Issued by FHLBank Atlanta to a third-party beneficiary on behalf of a shareholder
- The shareholder must have an obligation to the beneficiary
- Most common usage is Public Unit Deposit LOCs



Confirming Letters of Credit

- Support a shareholder's obligations with respect to the underlying LOC or credit transaction
- A Confirming LOC – sometimes called a 'wrap' – can help secure improved credit terms for community-focused bonds, enhancing the bond's credit rating, reducing borrowing costs, and improving marketability
- The LOC provides added benefits to small- and medium-sized community banks as it allows them to compete for local business on a level playing field with larger, rated institutions



Conclusion

- New and existing opportunities to maximize collateral availability exist
- FHLBank Atlanta offers an array of funding opportunities to help you strategically position your institution for success
- FHLBank Atlanta Letter of Credit is a versatile tool that can serve as collateral for certain deposits and as a credit enhancement

Contacts

- Scott Brennan, Director of Sales
 - SBrennan@fhlbatl.com
 - 404.888.5386
- Rob Kovach, Chief Credit Officer
 - RKovach@fhlbatl.com
 - 404.888.8461
- Patrick Rutledge, Public Finance Relationship Manager
 - Prutledge@fhlbatl.com
 - 404.888.8328