

FHLBank Atlanta

Credit & Collateral Policy Updates

January 16, 2014

Conference number: 800-734-8583

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Agenda

- Introduction
- Collateral Eligibility of Non-Qualified Mortgage Loans
- Updated Credit Risk Rating System for Banking Institutions
- Material Adverse Effect Reporting
- Implementation of LDM-based Market Values and Haircuts
- Updated Median Extrapolation Rates

Collateral Eligibility of Non-Qualified Mortgage Loans

Collateral Eligibility of Non-Qualified Mortgage Loans

- In January 2013, the Consumer Financial Protection Bureau adopted a rule that implements the ability to repay and Qualified Mortgage (QM) provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act.
- The rule became effective on January 10, 2014, for essentially all closed-end residential mortgages, both first and second lien, secured by structures containing 1-4 units for which an application is received on or after the effective date.

Collateral Eligibility of Non-Qualified Mortgage Loans

- The QM rule has the effect of dividing newly originated residential mortgages into QM or non-QM loans.
- **FHLBank Atlanta will accept both QM and non-QM loans as eligible collateral.**
- Newly originated Residential 1-4 mortgages and home equity loans will be subject to the QM rule.
- Residential 1-4 mortgages and home equity loans 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 will not be subject to the QM rule.

Collateral Reporting Requirements

- Collateral reporting requirements will be changing during 2014 to reflect the QM and non-QM classifications. However, no changes to reporting requirements are being announced at this time.
- Initially, lendable collateral value of QM and non-QM loans will be determined by FHLBank Atlanta using the current residential 1-4 mortgage valuation methodology.
- Valuations and discounts applied to QM and non-QM loans may change in the future depending on market pricing and volatility of these loans.
- The Ability to Repay rule is a baseline standard that is included with the general reps & warranties made by each shareholder.

Updated Credit Risk Rating System

Credit Risk Rating System

- The Bank's current rating system was implemented in 2010 and has been effective at helping to identify potential bank failures.
- The rating system is recalibrated every 3 years.
- The new system will be implemented based on financial data as of 12/31/2013 and will roll out sometime in late February – early March with the Q4 credit scores.
- In 2014, the Bank plans to recalibrate the credit risk rating system for credit unions.

Credit Risk Rating System

- Model assigns ratings from 1 through 10 (1 is the healthiest).
- Based upon increasing probability of default.
- Credit Analysts review credit ratings each quarter.
- Uses key financial ratios covering asset quality, earnings performance, capital adequacy, and liquidity.

Credit Risk Rating System

The **current** rating system for banks is based on the following financial measures :

- Total risk based capital ratio
- Two-quarter average ROAA
- Liquidity ratio
- Slow loans ratio
- $\text{NPA's} + 90 \text{ PD's} / \text{Loans} + \text{ORE}$
- Tangible Common Equity ratio

Credit Risk Rating System

The **new** rating system for banks will generate risk ratings based on the following financial measures:

- Total risk based capital ratio
- Four-quarter weighted-average ROAA
- Liquidity ratio
- Adjusted loans 30-89 days past due
- Modified Texas ratio
- Institution asset size

Credit Risk Rating System

Under the new system, certain triggers will automatically score 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 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%

Material Adverse Effect Reporting

Material Adverse Effect Reporting

- Shareholders are required to notify FHLBank Atlanta of any material adverse effect.
- Material adverse effect reporting has always been required and is detailed in the MPSG.
- FHLBank Atlanta has implemented a new, more formal process for shareholders to report material adverse effects.
- FHLBank Atlanta will send reminders on material adverse effect reporting on a more frequent basis.

Material Adverse Effect Reporting

- What is a material adverse effect?
- Common examples of material adverse effects:
 - Any type of fraudulent activity
 - Examiners make you restate two years of financial information

Material Adverse Effect Reporting

- To facilitate the new process, FHLBank Atlanta has created a confidential email account for shareholders to report such events:

AdverseEventReport@fhlbatl.com

- The following information should be included in a report:
 - Institution name and shareholder account number
 - Contact person name, phone number, and e-mail address
 - Brief description of material adverse effect and date event occurred

Implementation of LDM Based Market Valuation and Haircuts

LoanDynamics Model (LDM)

- The LoanDynamics™ Model is a credit and prepayment model for whole loan residential mortgage valuation developed by Andrew Davidson & Co. (AD&Co).
- FHLB Atlanta has implemented LDM to update the credit and prepayment predictions used in generating market values and haircuts for the Residential and HEL/HELOC portfolios.
- Loan-level members with these portfolios will begin to receive the updated prices in January; QCR and Delivered members will receive new prices when files are updated on or after February 1.
- Asset Brand haircuts under LDM will take effect on February 1, subject to FHLB Atlanta board approval.
- The majority of the changes are positive; a few Asset Brands may see a decrease in LCV with the combination of new price and new haircut.

LDM Price Impact: Residential 1-4 Family

January 1, 2014			
Residential 1-4 Family Market Values for QCR and Delivered Members	Current	Parallel LDM	Difference
Standard - Not Subprime	0.8529	0.9041	0.0512
Standard - Subprime	0.6801	0.7799	0.0998
IO ARM/Hybrid Not Subprime	0.7086	0.7928	0.0842
IO ARM/Hybrid Subprime	0.5867	0.6873	0.1006
IO Fixed Not Subprime	0.6613	0.6994	0.0381
IO Fixed Subprime	0.5326	0.5152	(0.0174)
NegAm/POA Not Subprime	0.4001	0.4485	0.0484
NegAm/POA Subprime	0.3828	0.3770	(0.0057)
Other Non-Traditional	0.6721	0.8223	0.1502
Other Non-Traditional and Subprime	0.6313	0.7797	0.1484

LDM Price Impact: Home Equity Loans

January 1, 2014						
Home Equity Loan Market Values for QCR and Delivered Members				Current	Parallel LDM	Difference
Home Equity Loans	1st Lien	Not Subprime	CLTV < 60%	0.9909	0.9970	0.0061
Home Equity Loans	1st Lien	Not Subprime	60% < CLTV < 80%	0.8870	0.9524	0.0654
Home Equity Loans	1st Lien	Not Subprime	CLTV > 80%	0.7818	0.8728	0.0910
Home Equity Loans	1st Lien	Subprime	CLTV < 60%	0.9579	0.9863	0.0284
Home Equity Loans	1st Lien	Subprime	60% < CLTV < 80%	0.8541	0.9418	0.0877
Home Equity Loans	1st Lien	Subprime	CLTV > 80%	0.7488	0.8622	0.1134
Home Equity Loans	2nd Lien	Not Subprime	CLTV < 60%	0.7058	0.6162	(0.0895)
Home Equity Loans	2nd Lien	Not Subprime	60% < CLTV < 80%	0.6019	0.5716	(0.0302)
Home Equity Loans	2nd Lien	Not Subprime	CLTV > 80%	0.4967	0.4921	(0.0046)
Home Equity Loans	2nd Lien	Subprime	CLTV < 60%	0.5910	0.6058	0.0147
Home Equity Loans	2nd Lien	Subprime	60% < CLTV < 80%	0.4871	0.5612	0.0741
Home Equity Loans	2nd Lien	Subprime	CLTV > 80%	0.3819	0.4816	0.0997

LDM Price Impact: Home Equity Lines of Credit

January 1, 2014						
Home Equity Line of Credit Market Values for QCR and Delivered Members				Current	Parallel LDM	Difference
HELOCs	1st Lien	Not Subprime	CLTV < 60%	0.9700	0.9848	0.0148
HELOCs	1st Lien	Not Subprime	60% < CLTV < 80%	0.8661	0.9403	0.0742
HELOCs	1st Lien	Not Subprime	CLTV > 80%	0.7609	0.8607	0.0998
HELOCs	1st Lien	Subprime	CLTV < 60%	0.8997	0.9665	0.0668
HELOCs	1st Lien	Subprime	60% < CLTV < 80%	0.7958	0.9219	0.1261
HELOCs	1st Lien	Subprime	CLTV > 80%	0.6906	0.8423	0.1518
HELOCs	2nd Lien	Not Subprime	CLTV < 60%	0.6512	0.5931	(0.0581)
HELOCs	2nd Lien	Not Subprime	60% < CLTV < 80%	0.5473	0.5485	0.0012
HELOCs	2nd Lien	Not Subprime	CLTV > 80%	0.4421	0.4690	0.0268
HELOCs	2nd Lien	Subprime	CLTV < 60%	0.4624	0.4752	0.0128
HELOCs	2nd Lien	Subprime	60% < CLTV < 80%	0.3585	0.4306	0.0722
HELOCs	2nd Lien	Subprime	CLTV > 80%	0.2533	0.3511	0.0978

Residential Discount Changes

Residential 1-4 Current Discount				
Product	QCR and Delivered		Listed	
	Credit Score 1-9	Credit Score 10	Credit Score 1-9	Credit Score 10
Standard	92.0%	72.0%	94.0%	74.0%
Standard - Subprime	81.0%	64.0%	83.0%	66.0%
IO ARM / Hybrid	89.0%	69.0%	91.0%	71.0%
IO ARM / Hybrid - Subprime	81.0%	64.0%	83.0%	66.0%
IO Fixed	89.0%	69.0%	91.0%	71.0%
IO Fixed - Subprime	81.0%	64.0%	83.0%	66.0%
Other NonTraditional	89.0%	69.0%	91.0%	71.0%
Other NonTraditional - Subprime	81.0%	64.0%	83.0%	66.0%
NegAm / POA	89.0%	69.0%	91.0%	71.0%
NegAm / POA - Subprime	81.0%	64.0%	83.0%	66.0%

Residential 1-4 New LDM Discount				
Product	QCR and Delivered		Listed	
	Credit Score 1-9	Credit Score 10	Credit Score 1-9	Credit Score 10
Standard	92.0%	78.0%	94.0%	80.0%
Standard - Subprime	82.0%	64.0%	84.0%	66.0%
IO ARM / Hybrid	87.0%	68.0%	89.0%	70.0%
IO ARM / Hybrid - Subprime	82.0%	64.0%	84.0%	66.0%
IO Fixed	87.0%	68.0%	89.0%	70.0%
IO Fixed - Subprime	82.0%	64.0%	84.0%	66.0%
Other NonTraditional	87.0%	68.0%	89.0%	70.0%
Other NonTraditional - Subprime	82.0%	64.0%	84.0%	66.0%
NegAm / POA	87.0%	68.0%	89.0%	70.0%
NegAm / POA - Subprime	82.0%	64.0%	84.0%	66.0%

Green values represent more value to shareholders and red values represent less value to shareholders under the new discounts.

HEL/HELOC Discount Changes

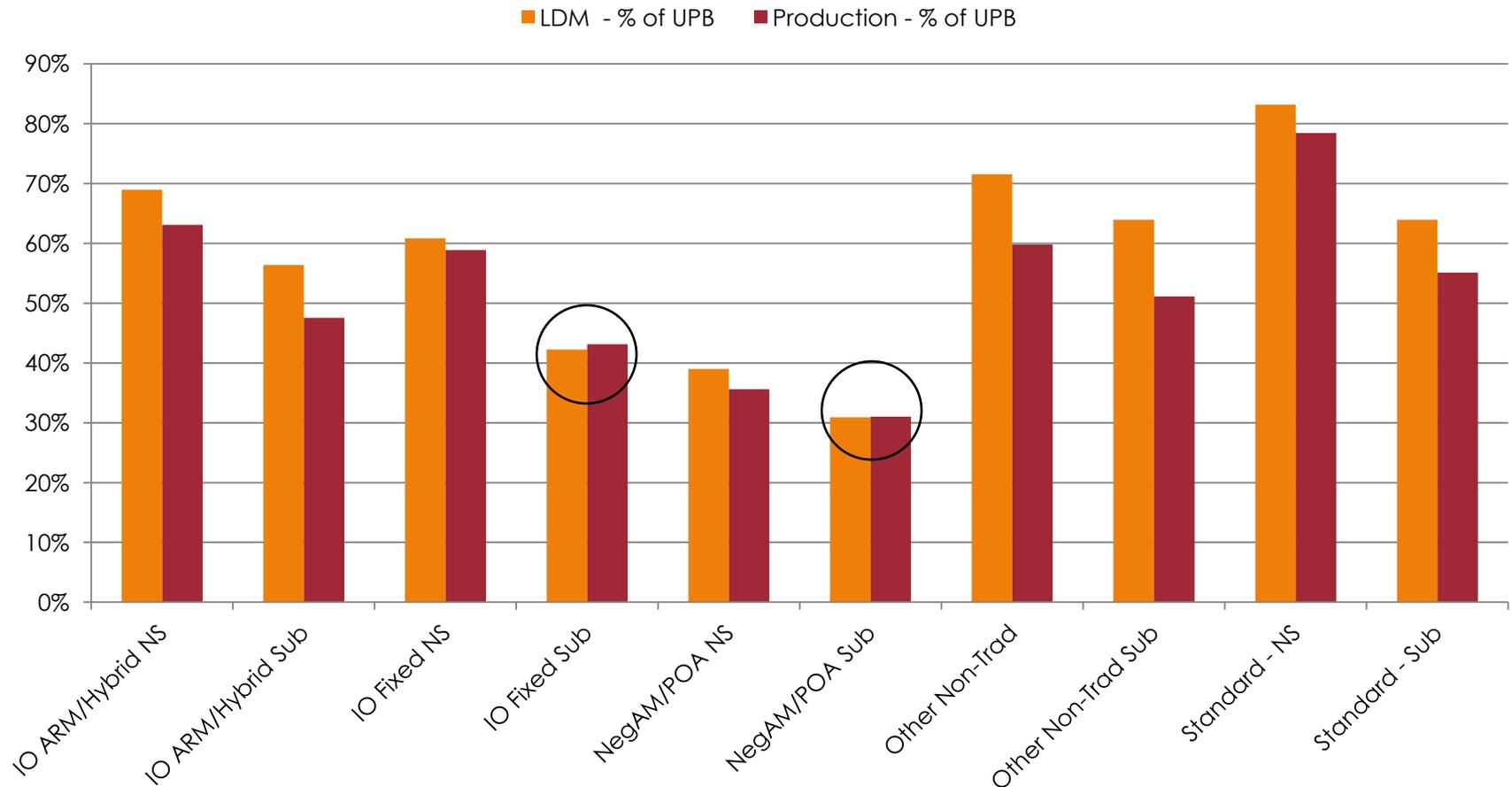
HEL/HELOC Current Discount				
Product	QCR and Delivered		Listed	
	Credit Score 1-9	Credit Score 10	Credit Score 1-9	Credit Score 10
HEL 1st Lien Not Subprime	90.0%	87.0%	94.0%	92.0%
HEL 1st Lien Subprime	90.0%	87.0%	94.0%	92.0%
HEL 2nd Lien Not Subprime	82.0%	71.0%	86.0%	75.0%
HEL 2nd Lien Subprime	82.0%	71.0%	86.0%	75.0%
HELOC 1st Lien Not Subprime	88.0%	76.0%	92.0%	81.0%
HELOC 1st Lien Subprime	88.0%	76.0%	92.0%	81.0%
HELOC 2nd Lien Not Subprime	80.0%	62.0%	84.0%	66.0%
HELOC 2nd Lien Subprime	80.0%	62.0%	84.0%	66.0%

HEL/HELOC New LDM Discount				
Product	QCR and Delivered		Listed	
	Credit Score 1-9	Credit Score 10	Credit Score 1-9	Credit Score 10
HEL 1st Lien Not Subprime	88.0%	87.0%	92.5%	91.5%
HEL 1st Lien Subprime	88.0%	87.0%	92.5%	91.5%
HEL 2nd Lien Not Subprime	83.0%	68.0%	87.5%	72.5%
HEL 2nd Lien Subprime	83.0%	68.0%	87.5%	72.5%
HELOC 1st Lien Not Subprime	88.0%	78.0%	92.5%	82.5%
HELOC 1st Lien Subprime	88.0%	78.0%	92.5%	82.5%
HELOC 2nd Lien Not Subprime	80.0%	54.0%	84.5%	58.5%
HELOC 2nd Lien Subprime	80.0%	54.0%	84.5%	58.5%

LDM Combined Price & Discount Effect

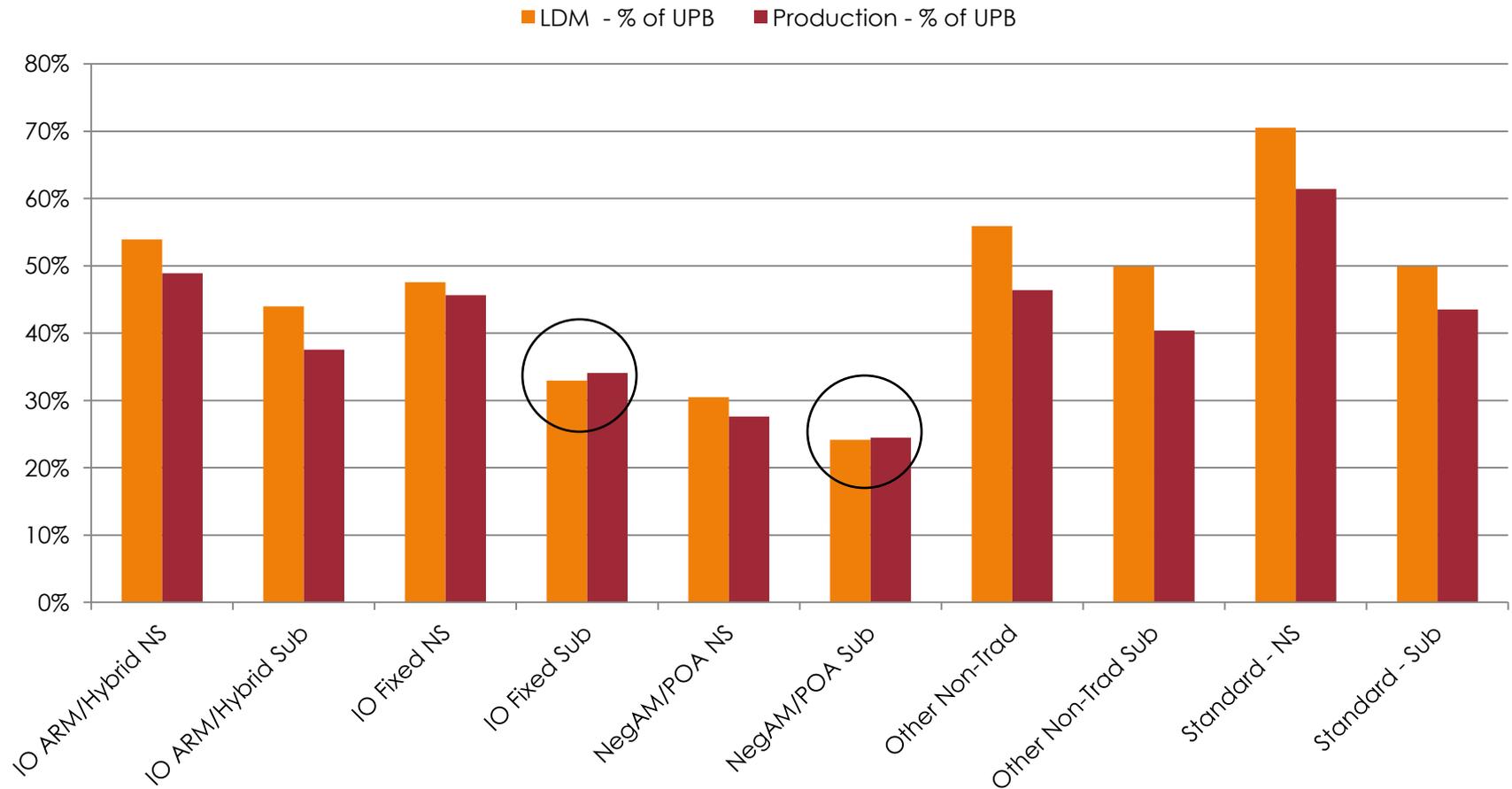
- The following slides give an overview of the LDM price impact for QCR and Delivered members if LDM had been used for the prices and discounts effective as of January 1, 2014.
- The net effect of the price and discount changes is presented by Asset Brand and Credit Score.
- Shareholders that submit listed loan information will be contacted individually for updates.
- Actual prices that will go into effect February 1, 2014 will be communicated in the last week of January.

Res QCR/Delivered Credit Score 1-9 LDM Price & Haircut Impact

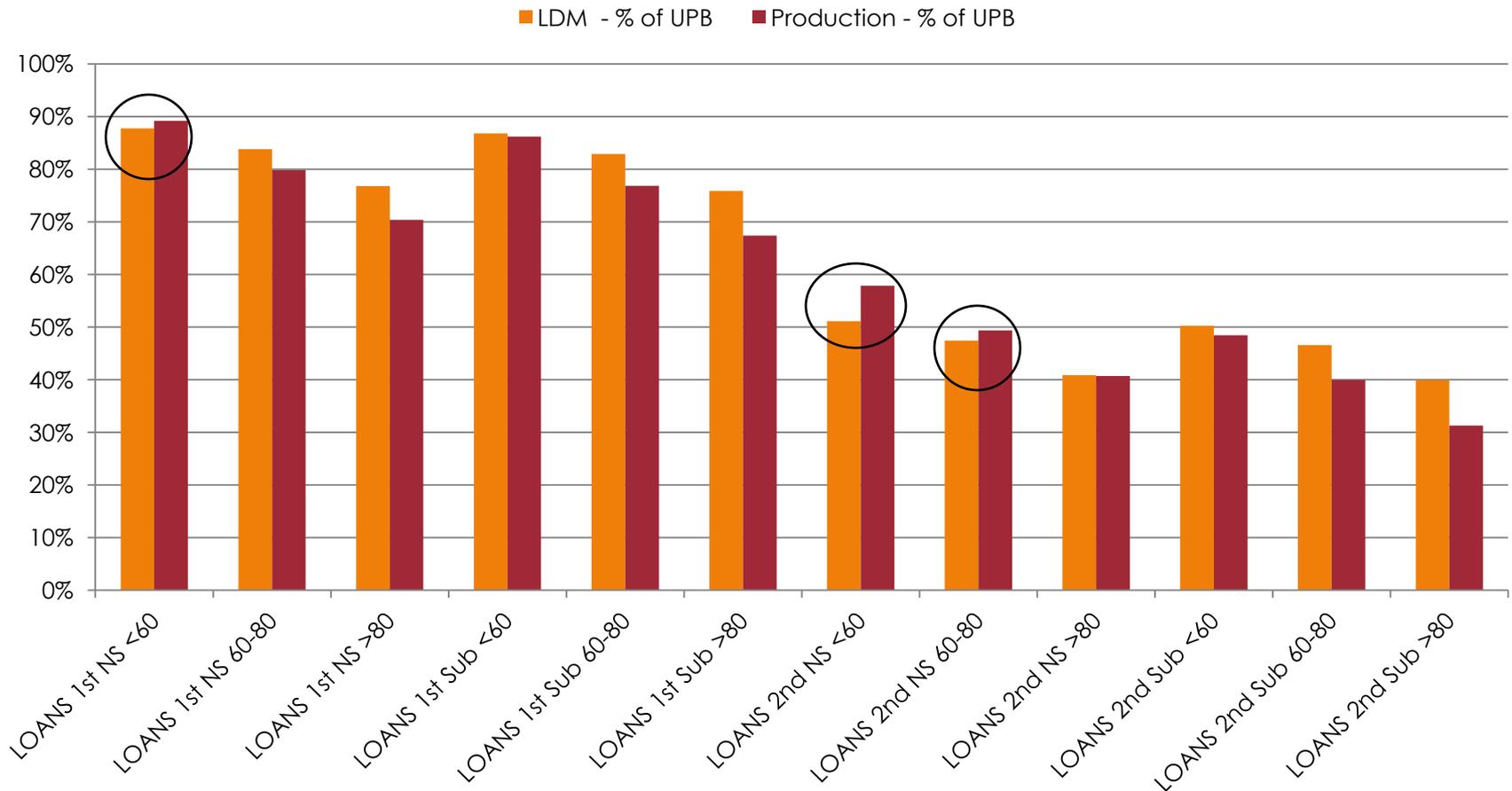


Circled values show asset brands with net negative impact.

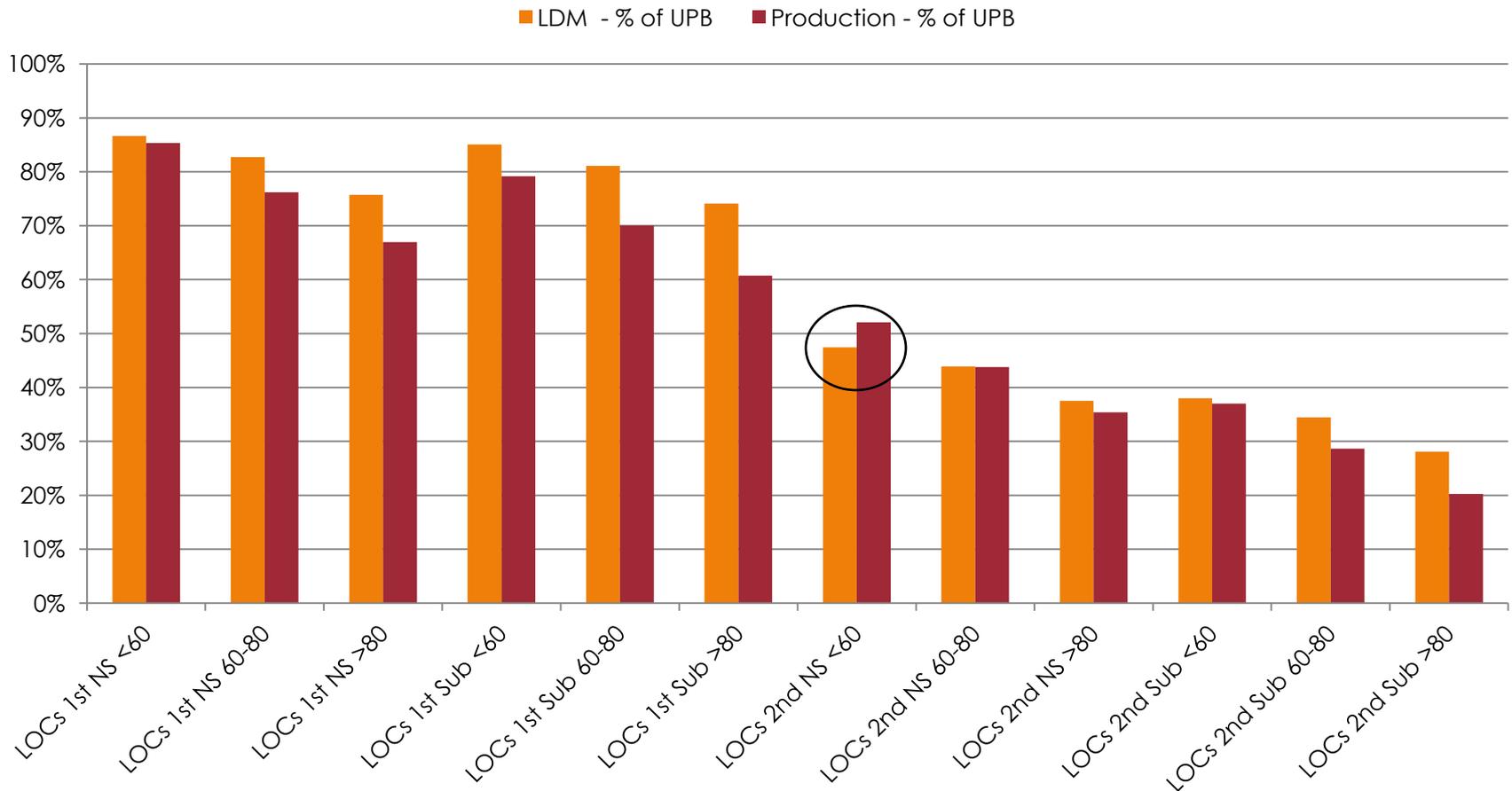
Res QCR/Delivered Credit Score 10 LDM Price & Haircut Impact



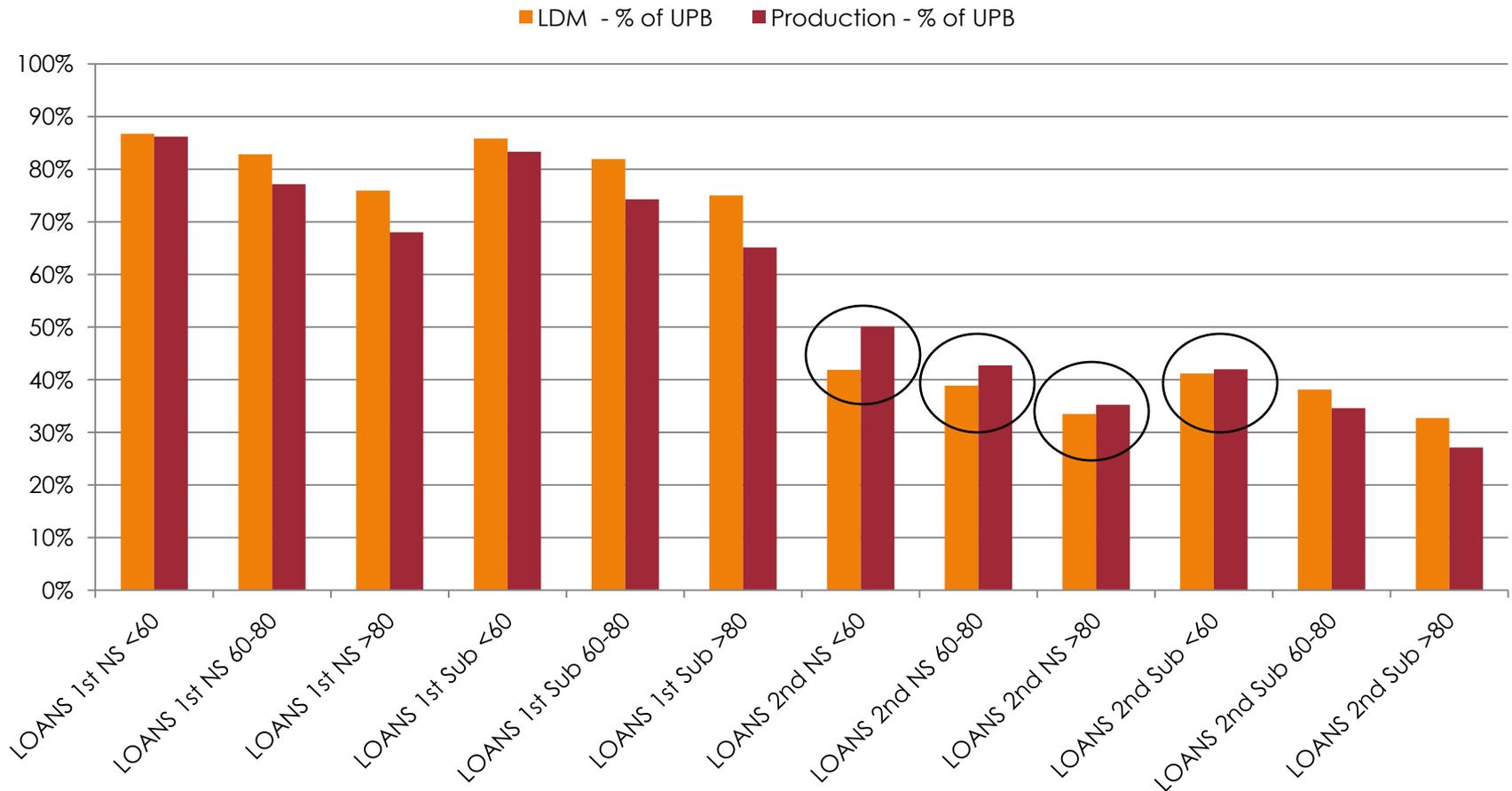
HEL QCR/Delivered Credit Score 1-9 LDM Price & Haircut Impact



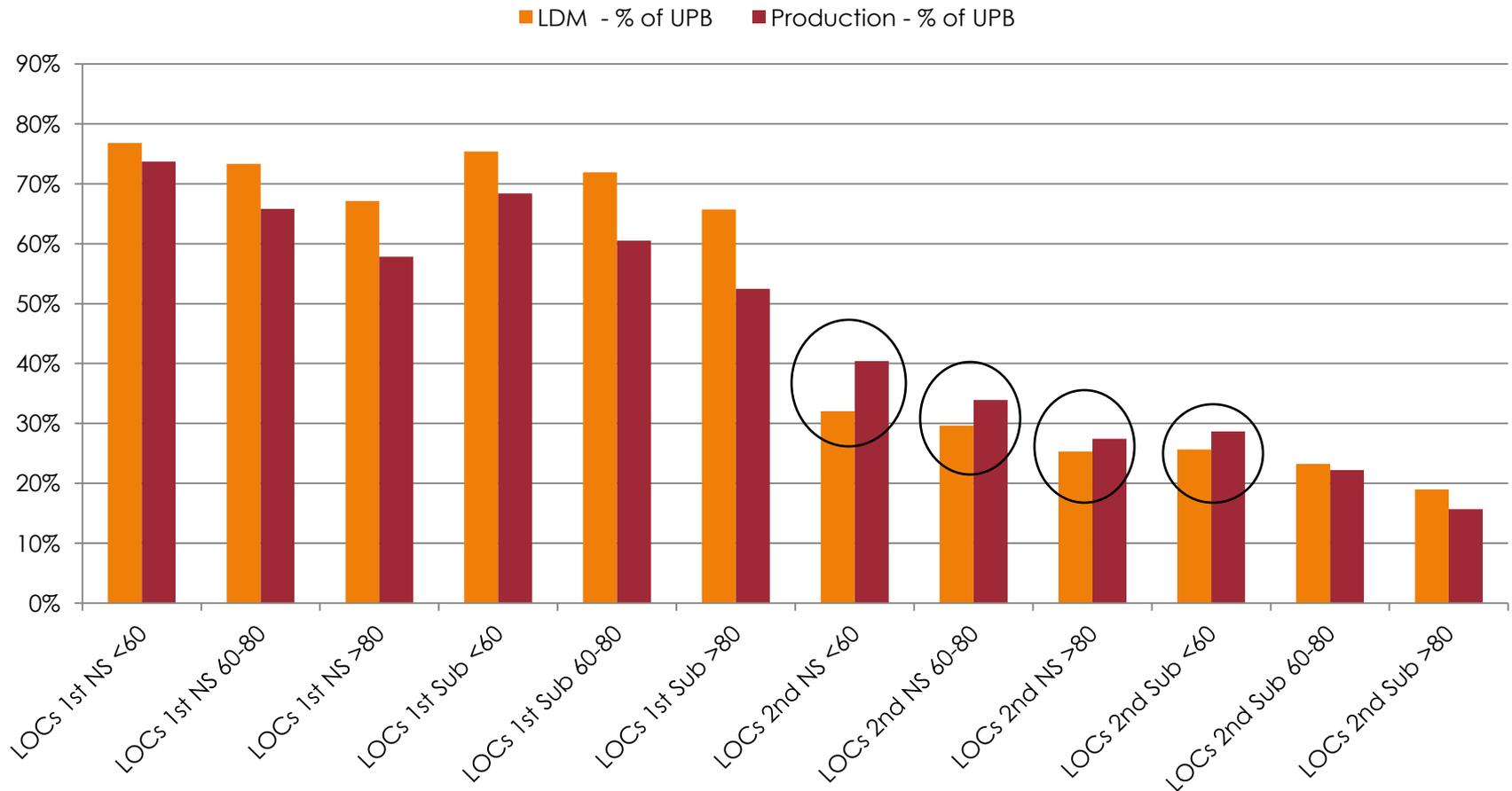
HELOC QCR/Delivered Credit Score 1-9 LDM Price & Haircut Impact



HEL QCR/Delivered Credit Score 10 LDM Price & Haircut Impact



HELOC QCR/Delivered Credit Score 10 LDM Price & Haircut Impact



Updated Median Extrapolation Rates

Updated Extrapolation Rates for Unreviewed Loan Portfolios

- FHLBank Atlanta has updated the extrapolation rates applied to loan portfolios that have not been reviewed through the CVR process.
- The rate applied to an unreviewed loan portfolio equals the median extrapolation rate for all reviewed portfolios of the same loan type. The median extrapolation rate is replaced with the actual rate upon the initial CVR.

Loan Type	Jan. 30, 2014	Aug. 13, 2013	Jan. 30, 2013	Nov. 2, 2012
Residential	4.00%	4.00%	4.00%	3.28%
Multifamily	0.00%	0.00%	0.00%	0.00%
HELOC/Second Mortgage	2.00%	2.00%	2.00%	2.00%
Commercial Real Estate	7.14%	4.00%	5.71%	4.00%

Questions & Answers

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