

Credit and Collateral Policy Updates

August 19, 2014

Conference number: 800-749-1342



Agenda

- Introduction
- Credit and Collateral Policy Revisions
 - Revised Discounts for Mortgage Loan Collateral
 - Changes to Loan File Delivery Requirements
 - New Bank Secrecy Act / Anti-Money Laundering Rules
- Credit and Collateral Policy Clarifications
 - Eligibility of Private Placement Securities
 - Master Lien Protection Policies
- Questions and Answers

Revised Discounts for Mortgage Loan Collateral

Revised Mortgage Loan Collateral Discounts

- The loan collateral discount, also called LCV% or discount factor, is part of the formula that calculates Lendable Collateral Value (LCV) for the Unpaid Principal Balance (UPB) for each pledged portfolio
- $\$ \text{ Lendable Collateral Value} = \text{UPB} \times \text{Market Value\%} \times (1 - \text{Extrapolation Factor\%}) \times \text{LCV\%}$
- The LCV% accounts for price volatility, model uncertainty, and costs of liquidation/servicing

Revised Mortgage Loan Collateral Discounts

Sample LCV calculation from QCR form

III. Net Eligible 1-4 Family First Mortgage Loans:	\$100,000
Market Value %:	88.25 %
IV. Market Value \$:	\$88,250
Collateral Verification Review Extrapolation Factor:	6 %
V. Adjusted Eligible 1-4 Family First Mortgage Loans:	\$82,955
Collateral Value %:	91 %
VI. Lendable Collateral Value of Residential 1-4 Family First Mortgage Loans:	\$75,489

Revised Mortgage Loan Collateral Discounts

- An annual review of mortgage collateral discounts has led to changes in the LCV% applied to the following portfolios:
 - Residential 1-4
 - Home Equity Loan/Line of Credit
 - Commercial Real Estate
 - Multifamily
- Revised discounts will take effect September 3, 2014
- Market value methodology remains the same
- The overall impact of the changes is expected to be small
- Collateral discounts are monitored on a quarterly basis
- Please contact your Collateral Relationship Specialist if you have questions

Revised Discounts September 3, 2014

Shareholders Reporting via Loan Listings: Residential

Residential 1-4 Family Lendable Collateral Value						
Product	Listed					
	Credit Score 1-9			Credit Score 10		
	Current	Effective 9/3/14	Change	Current	Effective 9/3/14	Change
Standard	94.0%	94.0%	0.0%	80.0%	80.0%	0.0%
Standard - Subprime	84.0%	83.0%	-1.0%	66.0%	65.0%	-1.0%
IO ARM / Hybrid	89.0%	88.0%	-1.0%	70.0%	70.0%	0.0%
IO ARM / Hybrid - Subprime	84.0%	83.0%	-1.0%	66.0%	65.0%	-1.0%
IO Fixed	89.0%	88.0%	-1.0%	70.0%	70.0%	0.0%
IO Fixed - Subprime	84.0%	83.0%	-1.0%	66.0%	65.0%	-1.0%
Other NonTraditional	89.0%	88.0%	-1.0%	70.0%	70.0%	0.0%
Other NonTraditional - Subprime	84.0%	83.0%	-1.0%	66.0%	65.0%	-1.0%
NegAm / POA	89.0%	88.0%	-1.0%	70.0%	70.0%	0.0%
NegAm / POA - Subprime	84.0%	83.0%	-1.0%	66.0%	65.0%	-1.0%

Revised Discounts September 3, 2014

Shareholders Reporting via QCR/Delivery: Residential

Residential 1-4 Family Lendable Collateral Value						
Product	QCR & Delivered					
	Credit Score 1-9			Credit Score 10		
	Current	Effective 9/3/14	Change	Current	Effective 9/3/14	Change
Standard	92.0%	92.0%	0.0%	78.0%	78.0%	0.0%
Standard - Subprime	82.0%	81.0%	-1.0%	64.0%	64.0%	0.0%
IO ARM / Hybrid	87.0%	87.0%	0.0%	68.0%	68.0%	0.0%
IO ARM / Hybrid - Subprime	82.0%	81.0%	-1.0%	64.0%	64.0%	0.0%
IO Fixed	87.0%	87.0%	0.0%	68.0%	68.0%	0.0%
IO Fixed - Subprime	82.0%	81.0%	-1.0%	64.0%	64.0%	0.0%
Other NonTraditional	87.0%	87.0%	0.0%	68.0%	68.0%	0.0%
Other NonTraditional - Subprime	82.0%	81.0%	-1.0%	64.0%	64.0%	0.0%
NegAm / POA	87.0%	87.0%	0.0%	68.0%	68.0%	0.0%
NegAm / POA - Subprime	82.0%	81.0%	-1.0%	64.0%	64.0%	0.0%

Revised Discounts September 3, 2014

Shareholders Reporting via Loan Listings: HEL/HELOC

Home Equity Loan/Line of Credit Lendable Collateral Value								
Product			Listed					
			Credit Score 1-9			Credit Score 10		
			Current	Effective 9/3/14	Change	Current	Effective 9/3/14	Change
FIXED	1st Lien	Not Subprime	92.5%	95.0%	2.5%	91.5%	94.0%	2.5%
FIXED	1st Lien	Subprime	92.5%	95.0%	2.5%	91.5%	94.0%	2.5%
FIXED	2nd Lien	Not Subprime	87.5%	89.0%	1.5%	72.5%	75.0%	2.5%
FIXED	2nd Lien	Subprime	87.5%	89.0%	1.5%	72.5%	75.0%	2.5%
HELOC	1st Lien	Not Subprime	92.5%	95.0%	2.5%	82.5%	85.0%	2.5%
HELOC	1st Lien	Subprime	92.5%	95.0%	2.5%	82.5%	85.0%	2.5%
HELOC	2nd Lien	Not Subprime	84.5%	79.0%	-5.5%	58.5%	60.0%	1.5%
HELOC	2nd Lien	Subprime	84.5%	79.0%	-5.5%	58.5%	60.0%	1.5%

Revised Discounts September 3, 2014

Shareholders Reporting via QCR/Delivery: HEL/HELOC

Home Equity Loan/Line of Credit Lendable Collateral Value								
Product			QCR & Delivered					
			Credit Score 1-9			Credit Score 10		
			Current	Effective 9/3/14	Change	Current	Effective 9/3/14	Change
FIXED	1st Lien	Not Subprime	88.0%	94.0%	6.0%	87.0%	93.0%	6.0%
FIXED	1st Lien	Subprime	88.0%	94.0%	6.0%	87.0%	93.0%	6.0%
FIXED	2nd Lien	Not Subprime	83.0%	89.0%	6.0%	68.0%	74.0%	6.0%
FIXED	2nd Lien	Subprime	83.0%	89.0%	6.0%	68.0%	74.0%	6.0%
HELOC	1st Lien	Not Subprime	88.0%	94.0%	6.0%	78.0%	84.0%	6.0%
HELOC	1st Lien	Subprime	88.0%	94.0%	6.0%	78.0%	84.0%	6.0%
HELOC	2nd Lien	Not Subprime	80.0%	79.0%	-1.0%	54.0%	60.0%	6.0%
HELOC	2nd Lien	Subprime	80.0%	79.0%	-1.0%	54.0%	60.0%	6.0%

Revised Discounts September 3, 2014

Shareholders Reporting via QCR/Delivery*: Commercial Real Estate and Multifamily

Commercial Real Estate Loan Lendable Collateral Value						
Product	QCR & Delivered					
	Credit Score 1-9			Credit Score 10		
	Current	Effective 9/3/14	Change	Current	Effective 9/3/14	Change
Level 1	74.0%	70.0%	-4.0%	60.0%	55.0%	-5.0%
Level 2	75.0%	77.0%	2.0%	61.0%	62.0%	1.0%
Level 3	76.0%	79.0%	3.0%	62.0%	64.0%	2.0%
Special Purpose Level 1	37.0%	35.0%	-2.0%	30.0%	27.5%	-2.5%
Special Purpose Level 2	37.5%	38.5%	1.0%	30.5%	31.0%	0.5%
Special Purpose Level 3	38.0%	39.5%	1.5%	31.0%	32.0%	1.0%

Multifamily Lendable Collateral Value						
Product	QCR & Delivered					
	Credit Score 1-9			Credit Score 10		
	Current	Effective 9/3/14	Change	Current	Effective 9/3/14	Change
Level 1	74.0%	77.0%	3.0%	60.0%	63.0%	3.0%
Level 2	75.0%	78.0%	3.0%	61.0%	64.0%	3.0%
Level 3	76.0%	79.0%	3.0%	62.0%	65.0%	3.0%

*Also applies to shareholders submitting a specific CRE/MF pledge.

Changes to Loan File Delivery Requirements

Collateral Delivery Policy Changes

- Beginning with the Q2 2014 reporting period, shareholders with the following conditions are required to deliver pledged mortgage collateral:
 - Shareholders with a credit score of 10 for two consecutive quarters (with Q2 2014 being the second of the consecutive quarters)
 - Credit score 10s may be placed into loan file delivery if severe deterioration occurred in financial condition in one quarter
 - Shareholders with a CAMELS composite rating of “5” on the most recent examination report on file with FHLBank Atlanta
 - FHLBank Atlanta has discretion to require loan file delivery in other circumstances, if warranted

Collateral Delivery Policy Changes

- Certain rare exceptions to these criteria may be granted
 - Examples of exceptions include:
 - Pending capital raise that would significantly improve shareholder's financial condition
 - Pending merger/acquisition by a healthier institution

New Bank Secrecy Act and Anti-Money Laundering Requirements

BSA/AML Requirements

- In February 2014, the Financial Crimes Enforcement Network (FinCEN) finalized new regulations that subject the 12 Federal Home Loan Banks to the Bank Secrecy Act (BSA) for the first time
- The new requirements were designed by FinCEN in coordination with the Federal Housing Finance Agency (FHFA) to provide law enforcement and regulators with a more complete and timely national picture of suspected mortgage fraud and money laundering
- Under the new rule, FHLBank Atlanta must establish an effective program for the prevention of money laundering and will be required to file suspicious activity reports (SARs) with FinCEN

BSA/AML Requirements

- FHLBank Atlanta will file a SAR at any time that 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
- Like other financial institutions, FHLBank Atlanta would be prohibited from disclosing the filing of a SAR to shareholders or other external parties

Credit & Collateral Policy Updates Related to BSA/AML

- FHLBank Atlanta has updated its credit and collateral policy in connection with the implementation of its AML program as follows:
 - Each shareholder must maintain effective AML controls to prevent the use of the Bank's products and services to facilitate money laundering, terrorist financing, fraud, other financial crimes, or 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 has been amended to clarify that it applies to all shareholders and borrowers, and it is inclusive of the above provisions

Clarification on Eligibility of Private Placement Securities

Private Placement Securities

- Clarification of Eligibility
 - Private Placement securities have been and continue to be considered ineligible collateral
- Key Considerations
 - Not registered with the Securities and Exchange Commission (SEC)
 - Not offered to the public at large
 - Limited financial information
 - Difficulty in obtaining consistent pricing
 - Illiquidity and barriers to sell

Master Lien Protection Policies

Master Lien Protection Policies

The Bank does not accept master lien protection insurance policies or service agreements in lieu of post closing lien verification for Residential 1-4 family loans or Bank-required lien verification for HELOCs/2nds

- Master lien protection policies are insurance policies that cover loan losses (as defined by the policies) due to the loans not being in the correct lien position on the origination date
- The Bank does not accept these products because the insurers do not require public record searches to identify prior liens filed against the property securing the loan and often provide insurance coverage for loans in lien positions inferior to the Bank's requirements

Master Lien Protection Policies

The Bank's shareholders are not prohibited from using these insurance policies and service agreements. Shareholders may continue to use these products to mitigate future losses due to lien position, but they may not rely upon them as proof of lien position for collateral pledges

- The Bank accepts final title insurance policies, attorney opinions, and public record lien searches as proof of lien position
- Shareholders may report the insured loans as eligible collateral as long as the loans are in an acceptable lien position. Residential loans must be in first lien position and HELOCs/2nds may be in no less than second lien position

Master Lien Protection Policies

- During a Collateral Verification Review (CVR), one or more of these loans may be cited as exceptions if the loans are not in the required lien position
- Residential exceptions may be cured if the shareholder has post-closing lien verification documentation indicating a first lien position that was obtained or prepared prior to the “as of” date of the CVR. The shareholder may also provide a satisfaction or cancellation for the prior lien if it was recorded on or before the CVR “as of” date
- Exceptions for HELOCs/2nds < \$250,000 may be cured by pulling updated lien searches after the as-of date of the CVR
- Exceptions for HELOC/2nds ≥ \$250,000 may be cured only if the shareholder provides post-closing lien verification dated on or before the CVR “as of” date

Questions and Answers

Collateral Relationship Specialists/Managers

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