FHLBank ATLANTA
A FEDERAL HOME LOAN BANK

Reporting for LIBOR-Indexed Loans and Loans Under Forbearance Agreements

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Discussion Topics

1 Upcoming Changes to Qualifying Collateral Reports (QCRs)

2 New Reporting Requirements for Loans Indexed to the London Interbank Offered Rate (LIBOR)

3 New Reporting Requirements for Loans Impacted by COVID-19

4 Collateral Contacts

5 Questions and Answers

Upcoming Changes to QCRs

- Effective with the 9/30/2020 reporting cycle, QCRs for residential, HELOC/HEL, commercial, multifamily, and farmland loan portfolios will have new reporting requirements on page 3
- Optional and required data requested
- Three new categories added:
  - LIBOR-based loan collateral according to maturity dates (***required)***
  - LIBOR-based loan contract fallback language ***(optional)***
  - COVID-19 impacted loans ***(required)***
- The existing mitigated environmental risk loans category on page 3 remains and is required

Reporting Requirements for LIBOR-based Loans

New Reporting Requirements for LIBOR-based Loans

- After a six-month delay due to the COVID-19 pandemic, FHLBank Atlanta is making the LIBOR-related QCR changes as a result of:
  - Preparations for the phase out of LIBOR at the end of 2021
  - Requirements established by the Federal Housing Finance Agency in September 2019
- For shareholders providing listed loan information, the LIBOR index is captured in that data, but some additional detail on fallback language will be requested
- The information will be used to assess the Bank’s exposure to LIBOR-based loan collateral that matures after 2021

New Reporting Requirements for LIBOR-based Loans

- Page 3 of each QCR will have two categories for LIBOR-based loan reporting
  - **Category 1 – LIBOR Reporting** is ***required***
    - LIBOR-indexed adjustable rate loans that mature on or before 12/31/21
    - LIBOR-indexed adjustable rate loans that mature on or after 1/1/22
    - All other loans (adjustable with non-LIBOR index or fixed)
  - Data reported in **Category 1 – LIBOR Reporting** is based on the percentage of unpaid principal balance (UPB) for each line item in this category for the given loan portfolio
  - Items within **Category 1 – LIBOR Reporting** must total 100 percent

Categories

1. LIBOR Reporting *	Required	
LIBOR-indexed adjustable rate loans that mature on or before 12/31/21	2	%
LIBOR-indexed adjustable rate loans that mature on or after 1/1/22	21	%
All other loans (adjustable with non-LIBOR index, or fixed)	77	%

Percentage of Portfolio

Fallback Language Reporting

1 Shareholders are encouraged to report information on the fallback language contained in LIBOR-based loan contracts that may facilitate a transition to an alternative reference rate

2 Fallback language defines what happens to the loan's interest rate when LIBOR is unavailable or cannot be determined based on the method provided in the loan contract

3 A contract that lacks fallback provisions or has fallback language that does not specify what happens if LIBOR is not available creates uncertainty and risk for the lender

Fallback Language Reporting

- The Bank is seeking to understand the risk associated with contract fallback language by collecting information on the fallback language contained in the loan collateral shareholders pledge and report
- The Bank has established two reporting categories for fallback language classification:
  - Preferred
  - Non-preferred

Optional Information for LIBOR-based Loans

- The second category on Page 3 is optional to report
  - **Category 2 – LIBOR Fallback Language – for loans that mature on or after 1/1/22**
    - Preferred
    - Non-preferred
    - To be determined
  - Data reported in **Category 2 – LIBOR Fallback Language – for loans that mature on or after 1/1/22** is based on the percentage of UPB for each line item in this category for the given loan portfolio
  - Items within Category 2 must total 100 percent

Categories

2. LIBOR Fallback Language - for loans that mature on or after 1/1/22 *	Optional	
Preferred	75	%
Non-preferred	0	%
To be determined	25	%

Percentage of UPB

Preferred vs. Non-Preferred Fallback Language

- A loan will be considered to have **"Preferred"** fallback language if the loan contract:
  - Defines the new reference rate, the circumstances under which the new rate is to be used, and the spread adjustment calculation, or the mechanism to calculate spread adjustment; **<u>or</u>**
  - Is silent on reference rate discontinuation but gives the shareholder unilateral rights to make changes to the reference rate
- If the loan contract does not have fallback language that meets either of the above criteria, it will be considered to have **"Non-preferred"** fallback language
- Shareholders can also classify loans as **"To Be Determined"** if they are still researching and evaluating fallback language for their LIBOR-based loans at the time of the QCR submission

Importance of LIBOR Information

- Future potential for different market values and/or discounts
- Ongoing monitoring of market developments to determine the potential impact on the market values and whether separate market valuations and collateral discounts will be needed in the future for LIBOR-linked collateral that matures after December 31, 2021
- Preferred fallback language may mitigate the risk of LIBOR-linked collateral in the future

Reporting Requirements for Loans Impacted by COVID-19

COVID-19 Collateral Relief Program

- In response to the COVID-19 pandemic, FHLBank Atlanta implemented a temporary collateral relief program covering various aspects of loan collateral eligibility and reporting.

- Effective for loan collateral as of March 1, 2020 and applies to all loan portfolios with the exception of loans reported in the Residential Available for Sale program

- The following categories of loans impacted by COVID-19 and meeting all applicable eligibility requirements may be accepted:
  - Loans under forbearance agreements
  - Loans with payment deferral agreements or other modifications

COVID-19 Collateral Relief Program details and requirements can be found at www.fhlbatl.com

Loans Impacted by COVID-19

- The new COVID-19 category on QCR Page 3 covers the following categories of eligible loans under the Bank's COVID-19 Collateral Relief Program:

  – **Loans Under Forbearance Agreements**
    - Loans where the resolution of loan payments, which may be postponed up to 12 months, has not been determined

  – **Loans That Have Payment Deferral Agreements Or Other Modifications**
    - Loans where the resolution of postponed loan payments has been defined by a payment deferral agreement (e.g. a three-month deferment of principal and interest payments beginning on August 1 with the deferred payments to be repaid at the end of the loan term with an accompanying three-month extension of the maturity)
    - Loans with modifications of other terms or conditions of the loan (e.g. the modification provides for the resolution of postponed loan payments, an interest rate reduction, and a change in the amortization period)

New Reporting Requirements for COVID-19 Impacted Loans

- The Bank is making the COVID-19 related QCR changes to assist with its requirement to understand and account for risks in lending against mortgage collateral
  - Emerging data from market valuation vendors indicates that loans under forbearance agreements carry more risk than those not under forbearance
  - Collecting information from shareholders is the first step to understanding the risk

- For shareholders providing listed loan information, some forbearance information is already being provided, but some additional detail on deferral/modification will be requested

- The information will be used to evaluate the Bank's exposure to loans under forbearance or otherwise modified due to COVID-19

Required Information for COVID-19 Impacted Loans

- Page 3 of each QCR will have a required category for COVID-19 impacted loan reporting with the fields required to sum to 100 percent
  - **Field 1 – Loans currently under forbearance related to COVID-19**
    - Loans under forbearance agreements related to COVID-19 where the resolution of postponed payments is still unknown
    - Loans that have ***not been modified*** and/or it has not been determined how the postponed loan payments will be resolved
  - **Field 2 – Loans that have been modified or have received payment deferrals related to COVID-19**
    - Loans that have been modified due to COVID-19 related hardship (including payment deferral agreements) where the resolution of postponed loan payments is known
    - Loan modification agreements or payment deferral agreements exist that document the changes to the payment terms of the promissory note
  - **Field 3 – Loans without COVID-19 modifications, payment deferrals, or forbearance**
    - All other loans that are not under forbearance agreements and/or have not been modified due to COVID-19

Required Information for COVID-19 Impacted Loans

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- Data reported in the **COVID-19** category on page 3 is based on the percentage of UPB for each line item in this category for the given loan portfolio

- Items within the **COVID-19** category on page 3 must total 100 percent

Categories

3. COVID-19 *	Required	
Loans currently under forbearance related to COVID-19	6	%
Loans that have been modified or have received payment deferrals related to COVID-19	2	%
Loans without COVID-19 related modifications, payment deferrals or forbearance	92	%

Percentage of UPB

Importance of Loan Forbearance Information

- Future potential for different market values and/or discounts
- Ongoing monitoring of market developments to determine the potential impact on the market values and whether separate market valuations and collateral discounts will be needed in the future for loans under forbearance due to COVID-19
- Obtaining shareholder-specific information reduces the potential for under or over-valuing the collateral

QCR Page 3

Categories	Percentage of Portfolio	
1. LIBOR Reporting *	Required	
LIBOR-indexed adjustable rate loans that mature on or before 12/31/21	1	%
LIBOR-indexed adjustable rate loans that mature on or after 1/1/22	8	%
All other loans (adjustable with non-LIBOR index, or fixed)	91	%
2. LIBOR Fallback Language - for loans that mature on or after 1/1/22 *	Optional	
Preferred	84	%
Non-preferred	2	%
To be determined	14	%
3. COVID-19 *	Required	
Loans currently under forbearance related to COVID-19	6	%
Loans that have been modified or have received payment deferrals related to COVID-19	2	%
Loans without COVID-19 related modifications, payment deferrals or forbearance	92	%
4. Mitigated Environmental Risk Loans	Required	
Reported loans secured by properties with potential environmental risk, and that have a related clean or resolved Phase 1 environmental report	3	%

* Items within this Category must total 100%

Collateral Training

- Personalized training is available to assist shareholders with questions related to:
  - LIBOR and COVID-19 related changes to QCRs
  - COVID-19 Collateral Relief Program
  - Collateral eligibility guidelines
  - Reporting a new loan portfolio
  - Ways to increase lendable collateral value
  - Preparing for a collateral verification review
  - Other collateral topics

Collateral Contacts

Collateral Relationship & Training				
Sherri Ray	Collateral Eligibility & Relationship Manager		404.888.8478	SRay@fhlbatl.com
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Questions and Answers

Appendix

Preferred and Non-Preferred Fallback Language Examples

Preferred Fallback Language

The Alternative Reference Rates Committee (ARRC) released recommended contractual fallback language for new closed-end, residential ARMs (November 2019) https://www.newyorkfed.org/arrc/index.html

Excerpts from ***Adjustable Interest Rate and Monthly Payment Changes section:***

Trigger

- **(B) The Index**
  - **…If the Index is no longer available, it will be replaced in accordance with Section 4(G) below.**

New Rate

- **(G) Replacement Index and Replacement Margin**
  - **The Index is deemed to be no longer available and will be replaced if any of the following events (each, a "Replacement Event") occur: (i) the Administrator has permanently or indefinitely stopped providing the Index to the general public; or (ii) the Administrator or its regulator issues an official public statement that the Index is no longer reliable or representative.**
  - **If a Replacement Event occurs, the Note Holder will select a new index (the "Replacement Index") and may also select a new margin (the "Replacement Margin"),** as follows:
  - (1) If a replacement index has been selected or recommended for use in consumer products, including residential adjustable-rate mortgages, by the Board of Governors of the Federal Reserve System, the Federal Reserve Bank of New York, or a committee endorsed or convened by the Board of Governors of the Federal Reserve System or the Federal Reserve Bank of New York at the time of a Replacement Event, the Note Holder will select that index as the Replacement Index.
  - (2) If a replacement index has not been selected or recommended for use in consumer products under Section (G)(1) at the time of a Replacement Event, the Note Holder will make a reasonable, good faith effort to select a Replacement Index and a Replacement Margin that, when added together, the Note Holder reasonably expects will minimize any change in the cost of the loan, taking into account the historical performance of the Index and the Replacement Index.

Spread Adjustment

Preferred Fallback Language

- Legacy Fannie/Freddie ARM Uniform Instrument language would be deemed ***"preferred"*** based on the Bank's definition as it gives unilateral rights to the lender to change the reference rate
- Section 4. ADJUSTABLE INTEREST RATE AND MONTHLY PAYMENT CHANGES
- (B) The Index
  - Beginning with the first Change Date, my adjustable interest rate will be based on an Index. The "Index" is the average of interbank offered rates for one-year U.S. dollar-denominated deposits in the London market ("LIBOR"), as published in **The Wall Street Journal**. The most recent Index value available as of the date 45 days before each Change Date is called the "Current Index," provided that if the Current Index is less than zero, then the Current Index will be deemed to be zero for purposes of calculating my interest rate.
  - **If the Index is no longer available, the Note Holder will choose a new index that is based upon comparable information. The Note Holder will give me notice of this choice.**

(*The legacy fallback language example reflects excerpts from the Fannie Mae Uniform Multistate Adjustable Rate – One-Year LIBOR Index Note.)

Non-Preferred Fallback Language

Fallback language that ***does not give the lender the unilateral right*** to make changes to the interest rate index will be deemed ***"non-preferred"*** under the Bank's definition

Example of non-preferred language in a commercial loan agreement:

Inability to Determine Interest Rate; Ineffective Interest Rate

If Lender shall have determined that (a) adequate and reasonable means do not exist for ascertaining LIBOR as set forth herein, (b) LIBOR does not adequately and fairly reflect the effective cost to Lender of making or maintaining a LIBOR Loan, or (c) the making, maintenance or funding of a LIBOR Loan has been made impractical or unlawful, then, and in any such event, Lender may notify Borrower of such determination. As of such date as shall be specified in such notice, the Loan shall be converted to a Base Rate Loan and all Loans shall thereafter be Base Rate Loans unless and until such circumstances shall no longer exist and Lender shall have revoked such notice. **If an event described above exists and Lender has determined that such event is unlikely to be temporary in nature, Lender and Borrower shall endeavor to establish an alternative interest rate methodology to LIBOR that gives due consideration to conventions then being used by Lender to determine rates on interest in similar types of credit facilities as those hereunder.**

LIBOR Transition Resources

LIBOR Transition Resources

- Additional information on the LIBOR transition is available in the Bank's online Resource Center:
  - FHLBank Atlanta LIBOR Transition Resources

- Alternative Reference Rates Committee (ARRC) Resources:
  - LIBOR Transition Resource Guides for ARMs and Private Student Loans
  - SOFR Starter Kit - Key Information on Transition to SOFR