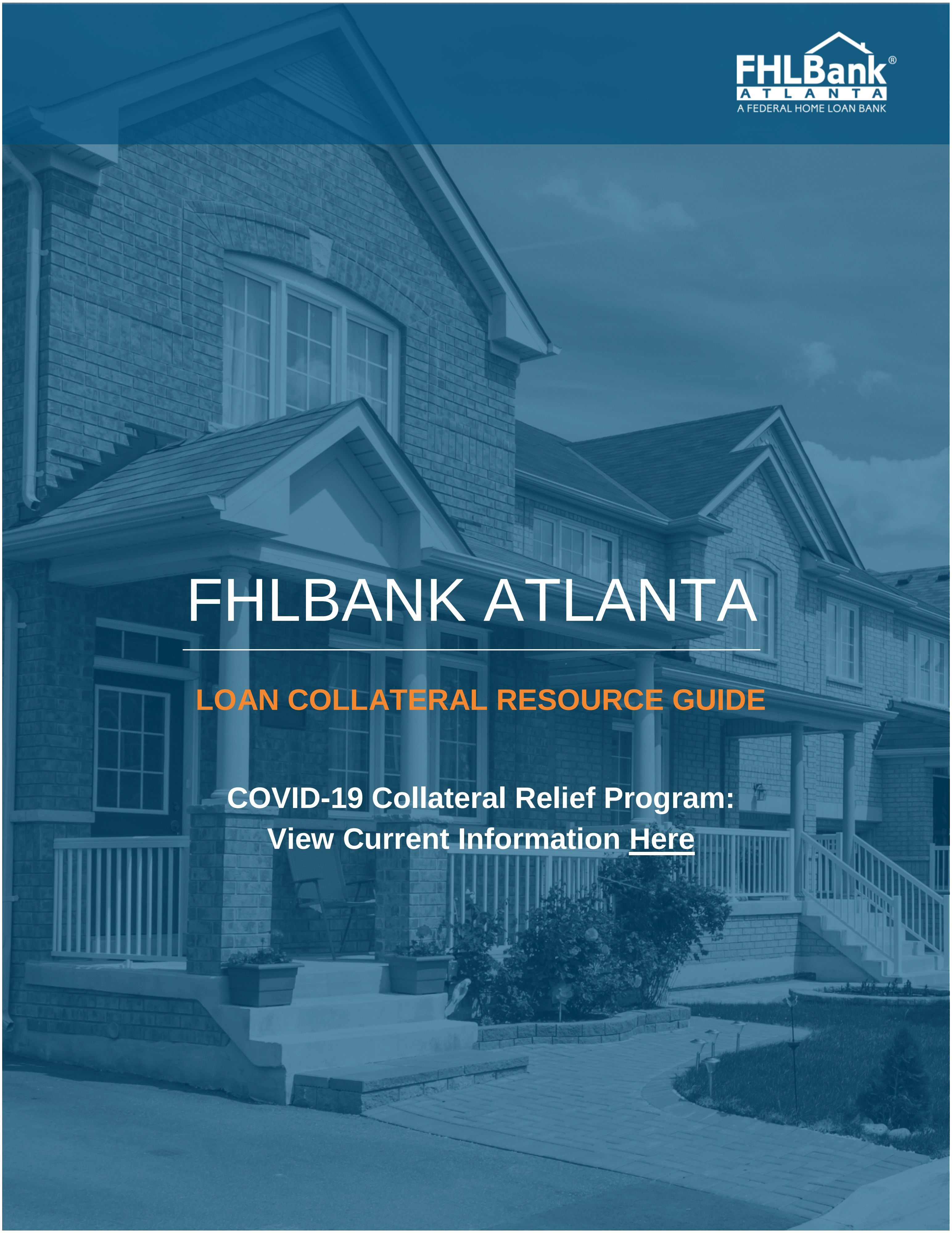

FHLBank ATLANTA
A FEDERAL HOME LOAN BANK

# FHLBANK ATLANTA

## LOAN COLLATERAL RESOURCE GUIDE

**COVID-19 Collateral Relief Program:**
**View Current Information Here**

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# Introduction to Loan Collateral Resource Guide

## A Message from the Chief Credit Officer

FHLBank Atlanta (the Bank) provides your institution with reliable access to competitively priced funding and liquidity. As your partner, our goal is to help you maximize your borrowing capacity with the Bank by helping you take advantage of the collateral opportunities available to your institution. Getting the most out of these opportunities begins with learning about collateral eligibility and how the Bank determines lendable collateral value.

Periodically, the Bank will update its collateral guidelines. We do so because we are committed to offering you as much credit as we can while still meeting the legal, regulatory, and risk management standards that protect your interests as a shareholder. Safeguarding the financial interests of the entire cooperative helps ensure that you always have access to a ready source of funding whenever you need it. We encourage you to review the Member Products and Services Guide and the Loan Collateral Resource Guide regularly to ensure your institution is up to date on current policies and processes.

We hope the Loan Collateral Resource Guide will be a useful tool to help your institution maximize its borrowing capacity with the Bank. If you have questions, please call your institution's collateral relationship specialist at 1.800.536.9650.

Thank you for your business and partnership with the Bank.

Rob Kovach
Chief Credit Officer
FHLBank Atlanta

## Using the Loan Collateral Resource Guide

Policies related to collateral eligibility and valuation are found in the Bank's Member Products and Services Guide. The Loan Collateral Resource Guide complements the Member Products and Services Guide by providing additional information to help you understand:

- Collateral eligibility requirements
- How the Bank determines the value of your reported loan collateral
- Preparing Qualifying Collateral Reports for reporting loan collateral
- Collateral Verification Review (CVR) process, including documentation requirements and the exception clearing process

The guide should be a helpful resource for all FHLBank Atlanta shareholders that report loan collateral or are planning to report loan collateral in the Residential, HELOC/HEL, Commercial, Multifamily, and Farmland portfolios. Loan operations staff and staff responsible for loan file documentation, collateral coding and reporting, and CVRs should find the content of this guide especially useful.

To the extent there is any conflict between the information in this Guide and the Bank's Credit and Collateral Policy in the Member Products and Services Guide, the terms in the Credit and Collateral Policy shall control.

## Sign Up to Receive Updates

You can register to be notified by email when the Bank updates this resource guide and other collateral documentation. Click here to register your email address.

Please contact the Collateral Relationship Specialist assigned to your institution if you have questions.

# Abbreviation List and Symbol Legend

## Frequently Used Abbreviations and Acronyms

**ARM**: Adjustable Rate Mortgage

**CML:** Collateral Maintenance Level

**CVR:** Collateral Verification Review

**DTI:** Debt-to-Income

**HELOC:** Home Equity Line of Credit

**HEL:** Home Equity Loan

**LCV**: Lendable Collateral Value

**MERS**: Mortgage Electronic Registration System

**PUD**: Planned Unit Development

**VOE:** Verification of Employment

**CLTV:** Combined Loan-to-Value

**CRE:** Commercial Real Estate Mortgage

**DSCR:** Debt Service Coverage Ratio

**FARM:** Farmland Mortgages

**IO:** Interest Only

**LTV:** Loan-to-Value

**PACE:** Property Assessed Clean Energy

**QCR:** Qualifying Collateral Report

**RES:** Residential 1-4 First Mortgage

**UPB**: Unpaid Principal Balance

## Symbol Legend

Residential 1-4 First Mortgages | HELOC/HEL Mortgages | Multifamily Mortgages | Commercial Real Estate Mortgages | Farmland Mortgages | Important Reminder | Example | Additional Information | Contact Us for More Information

## Hyperlinks

Hyperlinked text found throughout the guide enables you to navigate to another page or section of the guide to learn more about a particular topic. If you would like to return to the previous page or section of the guide after reviewing the additional information, you can press the **ALT and Left Arrow** keys on your keyboard to navigate back. Microsoft Internet Explorer is the preferred browser for viewing the Loan Collateral Resource Guide.

Links to external documents, such as the Member Products and Services Guide, will open in a separate browser window.

RES HELOC MF CRE FARM

## Summary of Changes

The following items describe recent changes to collateral eligibility and may affect the eligibility of loans reported by shareholders to secure borrowings with the Bank.

### Future Acceptance of eNotes as Collateral

In February 2020, the Bank published a statement on the public website that highlights information on the Future Acceptance of eNotes as Collateral within the FHLBank System as well as the Electronic Promissory Notes (eNotes) Model Collateral Acceptance Requirements and Guidelines, a common core set of guidelines that set forth standards relating to electronic signatures, eNote documentation, eClosings, eRegistry requirements, eNote vault requirements, and servicing system requirements. This information was published to guide shareholders throughout the process as the Bank continues to work on developing internal requirements and processes for future acceptance of eNotes as Collateral. The Bank is asking that shareholders review the information published on the website to ensure your institution's internal processes and systems are prepared to follow the requirements once the Bank has obtained the necessary resources and approval to begin accepting eNotes as collateral.

### Collateral Reporting for LIBOR-Indexed Loans

On September 30, 2020, the Bank updated its pledged collateral certification reporting requirements in accordance with direction provided by the Federal Housing Finance Agency in an effort to encourage members to distinguish collateral linked to the London Interbank Offered Rate (LIBOR) maturing past December 31, 2021. The Bank is collecting this information to help evaluate its exposure to LIBOR-based loans that mature after 2021. For additional information on the LIBOR phase out and transition, view the LIBOR article series on the Resource Center.

### Eligible Restaurant List

The Eligible Restaurant List for 2021 has been updated.

### Loan Collateral Secured by Properties with Environmental Risk

The Bank recently announced expanded eligibility of loan collateral secured by properties with a gas station, convenience store, auto repair facility, dry cleaners, underground storage tanks, or similar property types that have a clean or resolved Phase 1 environmental report, effective 12/31/2019. Guidelines on collateral eligible as a result of this change can be found in the Mortgage Collateral Eligibility section, the Residential and HELOC/HEL in Detail section, and the Commercial, Multifamily, and Farmland in Detail section of this guide.

### Farmland Mortgage Collateral

The Bank now accepts farmland mortgages with no limitation on the value of structures included in the farmland collateral securing the loan. Guidelines on eligible farmland collateral can be found in the Mortgage Collateral Eligibility section and the Commercial, Multifamily, and Farmland in Detail section of this guide.

# SECTION ONE

## MORTGAGE COLLATERAL ELIGIBILITY

This section of the Loan Collateral Resource Guide summarizes information regarding the mortgage collateral FHLBank Atlanta (the Bank) accepts for all five loan portfolios. Eligible mortgage collateral is defined for each portfolio type, including attributes that would make a loan ineligible.

You will also find in this section the Bank's definition of what constitutes Qualifying Collateral and the requirements your institution must meet to maintain a sufficient collateral maintenance level when executing any borrowings with the Bank.

If you have any questions after reviewing the Mortgage Collateral Eligibility section, please contact your Collateral Relationship Specialist.

**REMEMBER:** If you click on hyperlinked text and then want to return to the previous page, press the **ALT and Left Arrow** keys on your keyboard to navigate back.

## Topics in this Section

To navigate directly to any one of the topics listed below, click on the topic text.


Collateral Maintenance Level And Lendable Collateral Value

Collateral Requirements

Residential First Mortgage Collateral

Residential Mortgage Criteria

Eligible Loans

Ineligible Loans

HELOC/HEL Collateral

HELOC/HEL Criteria

Eligible Loans

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Commercial Mortgage Collateral

Commercial Mortgage Criteria

Eligible Loans

Ineligible Loans

Multifamily Mortgage Collateral

Multifamily Mortgage Criteria

Eligible Loans

Ineligible Loans

Farmland Mortgage Collateral

Farmland Mortgage Criteria

Eligible Loans


**Special Note about the Effective Date of Reporting**

Please note that the phrase “effective date of reporting” used in the Guide is equivalent to the “Balances as of date” on the Qualifying Collateral Report (QCR) and the Collateral Verification Review (CVR) “as of” date.

## Collateral Maintenance Level and Lendable Collateral Value

As a borrower of the Bank, you must maintain a collateral maintenance level (CML) of qualifying collateral that, when discounted to the lendable collateral value (LCV), is equal to at least 100 percent of your outstanding principal amount of all advances and other borrowings with the Bank.

The LCV is the value that the Bank assigns to qualifying collateral in order to determine the amount of credit your collateral will support. For each type of qualifying collateral, the Bank discounts the market value (MV) of the collateral to calculate the LCV. Accepted forms of collateral include certain types of securities, qualifying mortgage loans, and cash.

### What is Qualifying Collateral?

"Qualifying Collateral" means collateral, other than capital stock and deposits, that is eligible to support the origination of advances, credit products, derivative transactions, and other products under the terms and conditions of the Federal Home Loan Bank Act, Federal Housing Finance Agency regulations, and the Bank's Credit and Collateral Policy, and satisfies such other requirements for lending as may be established by the Bank.

The Bank's Advances and Security Agreement provides for the pledge of various forms of mortgage loans as collateral:

- Residential first mortgage loans
- Home equity lines of credit (HELOC)/home equity loans (HEL)
- Commercial mortgage loans
- Multifamily mortgage loans
- Farmland mortgage loans (via an additional amendment to the Advances and Security Agreement)

The current LCV for each type of qualifying collateral is listed in Appendix C and Appendix D in the Member Products and Services Guide.

## Collateral Requirements

Each loan pledged as collateral must meet all of the following requirements:

- It must not have been identified as held for sale by the borrower (except exclusively to support advances under the Residential Available for Sale (RAFS) program)
- It does not secure an indebtedness on which any director, officer, employee, or attorney or agent of the borrower or the Bank is personally liable
- It is not currently past due more than 30 days
- It has not been classified as substandard, doubtful, or loss by the borrower's regulator or its management
- It is not a mortgage on a property encumbered by a private transfer fee covenant created on or after February 8, 2011, unless such covenant is an "excepted transfer fee covenant"
- The original note and subsequent note modifications as well as a copy of the recorded mortgage must be maintained at all times in the possession or control of the shareholder
- It is free of any inconsistencies, errors, omissions, or missing loan documentation that could impact the credit quality of the collateral or the Bank's ability to perfect its security interest in the collateral
- It complies with all applicable laws administered or regulations implemented by the Department of the Treasury's Office of Foreign Assets Control (OFAC)
- Any individual borrower on any underlying loan collateral is legally authorized to be in the United States
- Its unpaid principal balance must be accurately reported on the effective date of reporting

Residential first mortgage loans, as well as HELOCs and HELs, must comply with Bank published "Guidelines to Promote Responsible Lending and Guidelines for Subprime and Nontraditional Loans" (see Appendix E of the Member Products and Services Guide).

Specific eligibility requirements exist for each of the mortgage loan categories (residential, HELOC/HEL, multifamily, commercial, and farmland). See each mortgage eligibility category for those requirements.

**For More Information**

See the Credit and Collateral Policy section of the Member Products and Services Guide for additional information about our credit and collateral requirements. If you have questions, contact the Collateral Relationship Specialist assigned to your institution.

**REMEMBER:** If you click on hyperlinked text and then want to return to the previous page, press the **ALT and Left Arrow** keys on your keyboard to navigate back.

## Residential First Mortgage Collateral

The Bank accepts as eligible residential first mortgage collateral fully disbursed (not a construction loan or line of credit) first mortgage loans your financial institution wholly owns. Lines of credit do not qualify as residential first mortgage collateral but may qualify as HELOC/HEL collateral.

### Residential Mortgage Criteria

Loans reported as residential first mortgage collateral should be secured by improved residential real property on which a 1-4 unit dwelling is located, including:

- Residential homes
- Condominiums
- Planned unit developments (PUDs)
- Townhomes
- Manufactured/mobile homes meeting certain conditions

### Eligible Loans

For residential first mortgage collateral to be accepted as eligible, it must meet each of the following criteria:

- The loan is wholly owned by the borrower and is free and clear of all liens and encumbrances, including any participation interests
- The loan has a signed borrowing resolution if the obligor is a corporation, partnership, limited liability company (LLC), etc.
- The LTV ratio based on the value of the underlying real estate collateral and including the value of any other loans cross-collateralized by such real estate collateral must meet one of the following criteria:
  - The current LTV (post origination) is greater than 100% and less than 130%. In this scenario, the LTV at origination must have been less than or equal to 100%.
  - The current LTV is less than or equal to 100%. In this scenario, the LTV at origination is not considered.
- The loan collateral is not cross-collateralized with any loan not pledged to the Bank
- The mortgaged property is not subject to a lien with priority over the lien associated with the pledged loan granted in connection with participation in a Property Assessed Clean Energy (PACE) or similar program

# Mortgage Collateral Eligibility

## Ineligible Loans

In addition to the general criteria that applies to all forms of collateral, a number of loans are ineligible as residential first mortgage collateral. Loans not accepted as eligible residential first mortgage collateral include:

- Participation loans
- Construction loans or lines of credit (i.e., not fully disbursed)
- Loans with document deficiencies
- Loans without original signed notes or note modifications
- Loans secured by less than a first lien (or missing post-closing evidence of first lien position)
- Loans with a current LTV exceeding 130 percent of the most recent real estate valuation
- Loans missing a signed borrowing resolution if the borrower is a corporation, partnership, LLC, etc.
- Loans on certain leasehold interests
- Loans on manufactured/mobile home loans that are not single-family dwellings or are not treated as real property under applicable state law
- Loans that are cross-collateralized with other loans not pledged to the Bank
- Loans that do not conform to the Bank's "Guidelines to Promote Responsible Lending" (see the appendix of the Member Products and Services Guide)
- Loans that do not have the Standard Flood Hazard Determination Form or do not meet Bank minimum flood insurance requirements
- Subprime and nontraditional loans originated on or after July 10, 2007, that do not have documentation to support adequate mitigating factors
- Loans with PACE liens
- Loans with unrecorded mortgages or mortgage modifications greater than 12 months from origination
- Loans with a power of attorney not recorded as required by applicable state law
- Loans secured by a security instrument containing private transfer fee covenants
- Loans relying on the value of a 1-4 unit home and acreage greater than 15 acres in order to meet the Bank's LTV requirements (or missing comps for acreage greater than five acres and less than or equal to 15 acres)

### For More Information

For more information on what does and does not qualify as residential first mortgage collateral, see the Residential and HELOCs/HEL Collateral in Detail section of this guide, the Credit and Collateral Policy section of the Member Products and Services Guide, or your institution's Advances and Security Agreement. Please contact the Collateral Relationship Specialist assigned to your institution if you have additional questions.

**REMEMBER:** If you click on hyperlinked text and then want to return to the previous page, press the **ALT and Left Arrow** keys on your keyboard to navigate back.

## HELOC/HEL Collateral

The Bank accepts as eligible home equity lines of credit (HELOCs) and home equity loans (HELs) that your financial institution wholly owns.

### HELOC/HEL Criteria

Loans reported as HELOC/HEL collateral should be secured by improved residential real property on which a 1-4 unit dwelling is located, including:

- Residential homes
- Condominiums
- Planned unit developments (PUDs)
- Townhomes
- Manufactured/mobile homes meeting certain conditions

### Eligible Loans

For HELOC/HEL collateral to be accepted as eligible, it must meet each of the following criteria:

- The loan is wholly owned by your financial institution and is free and clear of all liens and encumbrances, including any participation interests
- The combined loan balance (first and second mortgage) does not exceed 100 percent of the value of the underlying real estate collateral, including the value of any other loans cross-collateralized by such real estate. For HELOCs, the full line amount should be used in the LTV calculation
- The loan collateral is not cross-collateralized with any loan not pledged to the Bank
- The loan secures a first or second lien on the underlying real estate collateral
- The borrower on the loan is an individual or individuals
- The mortgaged property is not subject to a lien with priority over the lien associated with the pledged loan granted in connection with participation in a Property Assessed Clean Energy (PACE) or similar program

## Ineligible Loans

In addition to the general criteria that applies to all forms of collateral, a number of loans are ineligible as HELOC/HEL collateral. These include:

- Participation loans
- Loans with document deficiencies
- Loans without original signed notes or note modifications
- Loans secured by less than a second lien
- Loans to a borrower that is not an individual or individuals
- Loans with a combined LTV greater than 100 percent (including the loan balances of both first and second liens) of the most recent real estate valuation
- Loans on certain leasehold interests
- Loans on manufactured/mobile homes that are not single-family dwellings or not treated as real property under applicable state law
- Loans that are cross-collateralized with other loans not pledged to the Bank
- Loans that do not conform to the Bank's "Guidelines to Promote Responsible Lending" (see the appendix of the Member Products and Services Guide)
- Loans that do not have the Standard Flood Hazard Determination Form or do not meet Bank minimum flood insurance requirements
- Subprime loans originated on or after July 10, 2007, that do not have documentation to support adequate mitigating factors
- Loans with PACE lien
- Loans with unrecorded mortgages or mortgage modifications greater than 12 months from origination
- Loans with a power of attorney not recorded as required by applicable state law
- Loans secured by a security instrument containing private transfer fee covenants
- Loans relying on the value of a 1-4 unit dwelling and acreage greater than 15 acres in order to meet the Bank's LTV requirements (or missing comps for acreage greater than five acres and less than or equal to 15 acres)

**For More Information**

For more information on what does and does not qualify as HELOC/HEL collateral, see the Residential and HELOC/HEL Collateral in Detail section of this guide, the Credit and Collateral Policy section of the Member Products and Services Guide, or your institution's Advances and Security Agreement. Please contact the Collateral Relationship Specialist assigned to your institution if you have additional questions.

**REMEMBER:** If you click on hyperlinked text and then want to return to the previous page, press the **ALT and Left Arrow** keys on your keyboard to navigate back.

## Commercial Mortgage Collateral

The Bank accepts as eligible commercial collateral fully disbursed (not a construction loan or line of credit) first and second mortgage loans.

### Commercial Mortgage Criteria

Loans reported as commercial first and second mortgage collateral should be secured by improved commercial real property, including:

- Retail – Shopping malls, power centers, grocery-anchored shopping centers, fashion/specialty centers, unanchored strip centers, outlet centers, convenience stores, free standing retail.
- Office – Single and multi-tenant office buildings, executive suites, medical office, government office, banks
- Hotel/Motel – Full service hotel, limited service hotel/motel
- Industrial – Warehouse, distribution, research & development, flex and other light industrial, including properties with above ground storage tanks (ASTs) with no evidence of leakage
- Top 10 restaurants – Stand-alone franchised restaurants that are nationally ranked and recognized as one of the top 10 restaurants based on either sales revenue or units operated
- Places of worship (with LTV ratios of 75 percent or less)
- Assisted living facilities, nursing homes, retirement homes
- Funeral homes
- Community centers
- Mini storage
- Daycare centers (pre-school on site is permitted)
- Veterinarians and animal hospitals (may include kennels, dog runs)
- Condotels
- All property types with the potential for environmental issues, such as gas stations, automobile repair facilities, dry cleaners, or underground storage tanks (UST) are eligible if the member has a clean Phase 1 environmental report for that property and the member is not in delivery
- Eligible special purpose properties (these loans receive 50 percent of lendable collateral value)

CRE

# Mortgage Collateral Eligibility

## Eligible Loans

For commercial mortgage collateral to be accepted as eligible, it must meet each of the following criteria:

- The loan must be owned by your institution and be free and clear of all liens and encumbrances (except for minority, non-controlling participation interests)
- The loan has a signed borrowing resolution if the obligor is a corporation, partnership, limited liability company (LLC), etc.
- The current LTV ratio is less than or equal to 85 percent (including the balances of first and second mortgages if eligible second mortgages are reported) of the value of the underlying real estate collateral and including the value of any other loans cross-collateralized by such real estate
- The loan collateral is not cross-collateralized with any loan not pledged to the Bank
- The mortgaged property is not subject to a lien granted in connection with participation in a Property Assessed Clean Energy (PACE) or similar program, which has a priority interest over the lien associated with the reported loan
- Loans originated under Section 504 of the Small Business Investment Act (SBA 504 Program), if the loans are not guaranteed by the SBA
- The loan is not secured by an ineligible special purpose property
- The Bank accepts commercial second mortgages as eligible collateral. Before you can report the loans, you will need to execute a short amendment to your Advances and Security Agreement, which states that the Bank has a lien on both the first and the second mortgages. The loan must also meet the following criteria:
    - The first and second lien holder must be the same entity
    - The borrower on the first and the second loans must be exactly the same
    - The collateral on the first and the second loans must be exactly the same
    - The first and second loans may not exceed 85 percent LTV when the unpaid principal balances of the two loans are combined
    - In order for the second lien loan to be eligible, the first lien loan must also be eligible. (The first position loan, for example, cannot be a line of credit.)
    - The second mortgage loan must meet all other eligibility criteria for loans reported in the commercial portfolio. (For example, the second cannot be a line of credit and must have post-closing lien verification.)

CRE

## Ineligible Loans

In addition to the general criteria that applies to all forms of collateral, a number of loans are ineligible as commercial mortgage collateral. Loans not accepted as eligible commercial mortgage collateral include:

- Loans in which your institution has purchased a participation interest
- Loans in which your institution does not maintain a controlling interest
- Construction loans or lines of credit (i.e., not fully disbursed)
- Loans with document deficiencies
- Loans without original signed notes or note modifications
- Loans secured by ineligible special purpose properties
- Loans secured by a church, synagogue, or other place of worship with a current LTV greater than 75 percent
- Loans secured by a restaurant not ranked in the top 10 based on total revenue or units operated
- Loans secured by less than a second lien (or missing post-closing evidence of lien position)
- Loans with a combined LTV ratio greater than 85 percent (including first and second lien positions if eligible second liens are reported) of the most recent real estate valuation
- Loans missing a signed borrowing resolution if the borrower is a corporation, partnership, LLC, etc.
- Loans guaranteed by any entity that does not give the Bank control over the collateral in the event of default (SBA, etc.)
- Loans on certain leasehold interests
- Loans that are cross-collateralized with any other loan that is not pledged to the Bank
- Loans that do not have the Standard Flood Hazard Determination Form or do not meet Bank minimum flood insurance requirements
- Loans with PACE liens
- Loans with unrecorded mortgages or mortgage modifications greater than 12 months from origination
- Loans closed with a power of attorney that has not been recorded as required by applicable state law
- Loans secured by a security instrument containing private transfer fee covenants
- Loans secured by properties with recognized environmental concerns or unresolved environmental issues

**For More Information**

For more information on what does and does not qualify as commercial mortgage collateral, see the Commercial, Multifamily, and Farmland Collateral In Detail section of this guide, the Credit and Collateral Policy section of the Member Products and Services Guide, or your institution's Advances and Security Agreement. Please contact the Collateral Relationship Specialist assigned to your institution if you have additional questions.

**REMEMBER:** If you click on hyperlinked text and then want to return to the previous page, press the **ALT and Left Arrow** keys on your keyboard to navigate back.

# Mortgage Collateral Eligibility

## Multifamily Mortgage Collateral

The Bank accepts as eligible multifamily collateral fully disbursed (not a construction loan or line of credit) first and second mortgage loans.

### Multifamily Mortgage Criteria

Loans reported as multifamily first and second mortgage collateral should be secured by improved multifamily real property (five or more units).

### Eligible Loans

For multifamily mortgage collateral to be accepted as eligible, it must meet each of the following criteria:

- The loan must be owned by your institution and be free and clear of all liens and encumbrances (except for minority, non-controlling participation interests)
- The loan has a signed borrowing resolution if the obligor is a corporation, partnership, limited liability company (LLC), etc.
- The current LTV ratio is less than or equal to 85 percent (including the balances of first and second mortgages if eligible second mortgages are reported) of the value of the underlying real estate collateral and including the value of any other loans cross-collateralized by such real estate
- The loan collateral is not cross-collateralized with any loan not pledged to the Bank
- The mortgaged property is not subject to a lien granted in connection with participation in a Property Assessed Clean Energy (PACE) or similar program, which has a priority interest over the lien associated with the reported loan
- Loans originated under Section 504 of the Small Business Investment Act (SBA 504 Program), if the loans are not guaranteed by the SBA
- The Bank accepts multifamily second mortgages as eligible collateral. Before you can report the loans, you will need to execute a short amendment to your Advances and Security Agreement, which states that the Bank has a lien on both the first and the second mortgages. The loan must also meet the following criteria:
  - The first and second lien holder must be the same entity
  - The borrower on the first and the second loans must be exactly the same
  - The collateral on the first and the second loans must be exactly the same
  - The first and second loans may not exceed 85 percent LTV when the unpaid principal balances of the two loans are combined
  - In order for the second lien loan to be eligible, the first lien loan must also be eligible. (The first position loan, for example, cannot be a line of credit.)
  - The second mortgage loan must meet all other eligibility criteria for loans reported in the commercial portfolio. (For example, the second cannot be a line of credit and must have post-closing lien verification.)

# Mortgage Collateral Eligibility

MF

## Ineligible Loans

In addition to the general criteria that applies to all forms of collateral, a number of loans are ineligible as multifamily mortgage collateral. Loans not accepted as eligible multifamily mortgage collateral include:

- Loans in which your institution has purchased a participation interest
- Loans in which your institution does not maintain a controlling interest
- Construction loans or lines of credit (i.e., not fully disbursed)
- Loans with document deficiencies
- Loans without original signed notes or note modifications
- Loans secured by less than a second lien (or missing post-closing evidence of lien position)
- Loans with a combined LTV ratio greater than 85 percent (including first and second lien positions if eligible second liens are reported) of the most recent real estate valuation
- Loans missing a signed borrowing resolution if the borrower is a corporation, partnership, LLC, etc.
- Loans guaranteed by any entity that does not give the Bank control over the collateral in the event of default (SBA, etc.)
- Loans on certain leasehold interests
- Loans that are cross-collateralized with other loans not pledged to the Bank
- Loans that do not have the Standard Flood Hazard Determination Form or do not meet Bank minimum flood insurance requirements
- Loans with PACE liens
- Loans with unrecorded mortgages or mortgage modifications greater than 12 months from origination
- Loans with a power of attorney not recorded as required by applicable state law
- Loans secured by a security instrument containing private transfer fee covenants
- Loans secured by properties with recognized environmental concerns or unresolved environmental issues

### For More Information

For more information on what does and does not qualify as multifamily mortgage collateral, see the Commercial, Multifamily, and Farmland Collateral In Detail section of this guide, the Credit and Collateral Policy section of the Member Products and Services Guide, or your institution's Advances and Security Agreement. Please contact the Collateral Relationship Specialist assigned to your institution, if you have additional questions.

**REMEMBER:** If you click on hyperlinked text and then want to return to the previous page, press the **ALT and Left Arrow** keys on your keyboard to navigate back.

## Farmland Mortgage Collateral

The Bank accepts as eligible farmland collateral fully disbursed (not a construction loan or line of credit) first mortgage loans.

### Farmland Mortgage Criteria

Loans reported as farmland first mortgage collateral should be secured by agricultural real property including:

- Land principally used for farming
- Land used for crops, orchards, livestock production, pasture land, and timber land
- Property can include a 1-4 family residence, outbuildings, or other farm buildings but structures are not required to be present

### Eligible Loans

For farmland mortgage collateral to be accepted as eligible, it must meet each of the following criteria:

- The loan must be owned by your institution and be free and clear of all liens and encumbrances (except for minority, non-controlling participation interests)
- The loan has a signed borrowing resolution if the obligor is a corporation, partnership, limited liability company (LLC), etc.
- The current LTV ratio is less than or equal to 85 percent of the value of the underlying collateral and including the value of any other loans cross-collateralized by such collateral (No value is given to agricultural products in the calculation of LTV)
- The member has executed an amendment to its Advances and Security Agreement, which extends the Bank's lien to farmland
- The loan collateral is not cross-collateralized with any loan not pledged to the Bank
- The loan must be secured by agricultural property located in the U.S. or its territories used for agricultural purposes
- The mortgaged property is not subject to a lien granted in connection with participation in a Property Assessed Clean Energy (PACE) or similar program, which has a priority interest over the lien associated with the reported loan
- Loans originated under Section 504 of the Small Business Investment Act (SBA 504 Program), if the loans are not guaranteed by the SBA

### Ineligible Loans

In addition to the general criteria that applies to all forms of collateral, a number of loans are ineligible as farmland mortgage collateral. Loans not accepted as eligible farmland mortgage collateral include:

- Loans in which your institution has purchased a participation interest

- Loans in which your institution does not maintain a controlling interest
- Construction loans or lines of credit (i.e., not fully disbursed)
- Loans with document deficiencies
- Loans without original signed notes or note modifications
- Loans secured by less than a first lien (or missing post-closing evidence of lien position)
- Loans with a current LTV ratio exceeding 85 percent of the most recent real estate valuation
- Loans missing a signed borrowing resolution if the borrower is a corporation, partnership, LLC, etc.
- Loans guaranteed by any entity that does not give the Bank control over the collateral in the event of default (SBA, etc.)
- Loans on certain leasehold interests
- Loans that are cross-collateralized with other loans not pledged to the Bank
- Loans that require, but do not have the Standard Flood Hazard Determination Form or do not meet Bank minimum flood insurance requirements
- Loans with PACE liens
- Loans with unrecorded mortgages or mortgage modifications greater than 12 months from origination
- Loans with a power of attorney not recorded as required by applicable state law
- Loans secured by a security instrument containing private transfer fee covenants
- Loans secured by properties with recognized environmental concerns or unresolved environmental issues

### For More Information

For more information on what does and does not qualify as farmland mortgage collateral, see the Commercial, Multifamily, and Farmland Collateral In Detail section of this guide, the Credit and Collateral Policy section of the Member Products and Services Guide, or your institution's Advances and Security Agreement. Please contact the Collateral Relationship Specialist assigned to your institution, if you have additional questions.

**REMEMBER:** If you click on hyperlinked text and then want to return to the previous page, press the **ALT and Left Arrow** keys on your keyboard to navigate back.

## Requirements for Use of Collateral of an Affiliate

The Bank, under certain circumstances, may allow an affiliate of your institution to pledge collateral on behalf of your institution. For additional information on how an affiliate of your institution may be able to pledge and report loan collateral to the Bank, please review the Requirements of an Affiliate topic in the Credit and Collateral Policy section of the Member Products and Services Guide.

# SECTION TWO

## RESIDENTIAL AND HELOC/HEL COLLATERAL IN DETAIL

In addition to the general discussions of residential and HELOC/HEL collateral guidelines, this Residential and HELOC/HEL in Detail section offers more information on reporting these types of collateral. The residential and HELOC/HEL categories are combined here because they share some eligibility requirements. Before reporting collateral in these portfolios, you should review the following pages.

For details on other collateral portfolios, see the Commercial, Multifamily, and Farmland Collateral in Detail section of this guide.

If you have questions, please contact your Collateral Relationship Specialist.

**REMEMBER:** If you click on hyperlinked text and then want to return to the previous page, press the **ALT and Left Arrow** keys on your keyboard to navigate back.

# Residential and HELOC/HEL Collateral in Detail

RES HELOC

## Topics in this Section

To navigate directly to any one of the topics listed below, click on the topic text.


Property Type Eligibility – Residential Loans and HELOCs/HELs
- Business Purpose/Investment Properties
- Mixed-Use Properties
- Mobile/Manufactured Homes Loans
- Multi-Unit Dwellings
- Multiple 1-4 Family Unit Dwellings
- Condotels
- Property Held in Life Estates

Notes

Borrowing Resolutions
- Alternative Documentation

Mortgages, Deeds of Trust, Deeds to Secure Debt
- Mortgages Executed by a Power of Attorney
- Recording of Modifications

Lien Position Verification
- Acceptable Documentation of Lien Position
- Post-Closing Lien Searches
- Bring-Down Lien Searches
- HELOC/HEL Requirements
- Documentation In Lieu of Borrower's Affidavit
- Documenting Satisfaction of Prior Lien for Pre-closing Lien Searches
- Mortgage Lien Protection (Loss Coverage) Policies and Service Agreements
- Non-Mortgage-Related Liens

Lien Position Verification cont.
- PACE Loans
- Private Transfer Fee Covenants

Past Due Loans
- Additional Guidelines

Matured Loans

Classified Loans

Employee, Officer, and Director Loans
- Affiliated Shareholder Entities
- Partnerships, LLCs, and Syndicates
- Family Members
- FHLBank Atlanta Employees

Loan Participations
- Syndicated Loans

LTV Calculation
- LTV Requirements
- Loans Secured by Multiple Forms of Collateral

Property Appraisals
- Sufficient Appraisal Documentation
- Appraisals Subject to Completion
- Restrictions on Acreage
- Appraisals Without Separate Value of Land and Improvements


**Special Note about the Effective Date of Reporting**

Please note that the phrase "effective date of reporting" used in the Guide is equivalent to the "Balances as of date" on the Qualifying Collateral Report (QCR) and the Collateral Verification Review (CVR) "as of" date.

# Residential and HELOC/HEL Collateral in Detail

RES HELOC

## Topics in this Section cont.


Flood Insurance

- Minimum Coverage for Residential Loans
- Minimum Coverage for HELOCs/HELs
- Additional Flood Insurance Guidelines

Cross-Collateralization

- LTV Tests for Cross-Collateralized Loans

Guaranteed Loans

Ground Leases and Leasehold Interests

- Loans Originated With Ground Rents (Maryland)

Anti-Predatory Lending

- FHLBank Atlanta Anti-Predatory Lending (APL) Requirements
- Documentation Needed for APL Testing
- Credit Insurance
- Loans Purchased from Another Institution

Subprime and Nontraditional Loans

- Subprime Loan Criteria
- Subprime Loans Originated On or After July 10, 2007
- Exclusions from Subprime Classification
- Nontraditional Loan Criteria
- Nontraditional Payment Structures
- Nontraditional Loan Documentation (Reduced or No Documentation Loans)
- Nontraditional Loans Originated On or After July 10, 2007

Subprime and Nontraditional Loans cont.

- Exclusions from Nontraditional Classification
- Loan Modification Impact on Subprime/Nontraditional Classification
- Mitigating Factors for Subprime and Nontraditional Loans

Income Underwriting Documentation

- Modifications and Renewals
- Multiple Credit Reports
- DTI Calculations
- Post-Origination Documents

Qualified and Non-Qualified Mortgage Loans

## Property Type Eligibility – Residential Loans and HELOCs/HELs

Loans reported as residential first mortgage and HELOC/HEL collateral should be secured by improved residential real property on which a 1-4 unit dwelling is located, including:

- Residential homes
- Condominiums
- Planned unit developments (PUDs)
- Town homes
- Manufactured/mobile homes meeting certain conditions

All categories of loan collateral require that the underlying property contain a completed structure, occupied or ready for occupancy. You may not report loans secured by vacant land or property under construction. Additionally, loans secured by a mixture of eligible and ineligible collateral types (i.e., vehicles, CDs, stocks, insurance, etc.) can be reported *only if* the value given to the eligible collateral is used to fully support the LTV requirement. The value of the ineligible collateral types cannot be used in the LTV calculation.

If a loan is secured by, and relies upon, qualifying collateral from more than one eligible collateral category, it should be reported in the loan portfolio receiving the lowest lendable collateral value.

**Collateral from More Than One Category**

For example, if collateral for a loan includes both residential and commercial properties, and both values are needed for LTV purposes, the loan should be reported in the commercial portfolio.

## Business Purpose/Investment Properties

Loans secured by residential 1-4 properties where the primary purpose of the loan proceeds is for business or investment use should be reported in the residential or HELOC/HEL portfolio.

**Non-natural Borrowers**

Loans to non-natural borrowers such as LLCs, corporations, and partnerships are not eligible for reporting in the HELOC/HEL portfolio.

## Mixed-Use Properties

Loans secured by a mixed-use property are eligible for reporting in the commercial portfolio.

### Mixed-Use Properties

A property is classified as mixed-use if it provides more than one use or purpose within a shared building or development area. Mixed-use properties may include any combination of housing, office, retail, medical, and other commercial uses. Mixed-use collateral treatment only applies when the additional collateral type (e.g. CRE) is included in the collateral securing the loan. It does not apply to a 1-4 residential unit(s) located in a mixed-use development.

## Mobile/Manufactured Homes Loans

- The Bank requires that all mobile/manufactured homes be converted from personal property to real property. You must document this conversion with one of the following:
- An ALTA 7 endorsement to a title insurance policy
- A legal opinion stating that the mobile/manufactured home has been converted to real property under applicable state law
- Documentation from the applicable state authority indicating that the home has been converted to real property

For more information, as well as a description of each state's requirements with respect to manufactured housing documentation, please refer to Manufactured Housing – Alternative Evidence of Real Property Status.

## Multi-Unit Dwellings

Residential dwellings with up to four units can be reported in the residential or HELOC/HEL portfolios. Acceptable multi-unit dwellings can include properties such as duplexes, triplexes, and quadplexes. If the number of units in a group of duplexes, triplexes, or quadplexes exceeds four, and are all on the same parcel, then these should be reported in the multifamily portfolio. Loans secured by residential cooperatives are ineligible.

## Multiple 1-4 Family Unit Dwellings

Loans secured by multiple 1-4 family unit dwellings should be reported in the residential portfolio provided that they meet all other eligibility criteria.

**Loans Secured by Multiple 1-4 Family Units**

For example, loans secured by multiple condominiums, multiple single family residences, or multiple townhomes would be considered loans secured by multiple 1-4 family units.

## Timeshares and Fractional Ownership

Loans secured by an interest in a timeshare or a fractional ownership arrangement under which a purchaser buys the right to occupy the property for a specified period of time each year are ineligible.

## Condotels

Loans secured by condotels (condo hotels) must be reported in the commercial portfolio.

## Properties with the Potential for Environmental Risks

Loan collateral secured by properties with the potential for environmental risk may be eligible provided that your institution is not in loan file delivery and a Phase 1 environmental site assessment was conducted on the subject property on or before the effective date of loan reporting and the report shows a clean or resolved status. The Bank will not accept environmental documentation such as government record searches and environmental questionnaires as evidence of a clean or resolved environmental status for properties with the potential for an environmental risk. In order to be eligible, the loan file must contain a clean or resolved Phase 1 environmental site assessment. Please click here for additional detailed information regarding the eligibility of properties with potential for environmental risk.

## Property Held in Life Estates

Loans secured by properties subject to a life estate are ineligible. A life estate creates a legal arrangement whereby the life tenant retains use (rights to rents and profits), possession of the property, and the costs of maintaining the property until death. The life tenant has the legal right to remain in the subject residence until death as well. Since the right to occupancy impairs the transferability of the property, the Bank does not accept loans where the collateral is held in a life estate.

## Notes

A note should be properly executed and legally recognized as a debt obligation between you and the borrower. For the loan to be eligible, the note must be secured by a mortgage, deed of trust, or deed to secure debt on eligible real property.

### Original Notes

When reporting any mortgage loans as collateral, you must maintain possession or control of the original note and subsequent note modifications at all times. Loans held by a third party may be considered eligible mortgage collateral as long as you maintain control over the original note and other legal documents via a document custody or servicing agreement (or a similar agreement) and can deliver the original notes and other documents for review.

### Electronic Signatures

The Bank is currently developing internal requirements and processes for future acceptance of eNotes as eligible collateral within the residential portfolio. Please refer to the Future Acceptance of eNotes as collateral within FHLBank System as well as the Electronic Promissory Notes (eNotes) Model Collateral Acceptance Requirements and Guidelines to find out more information on the standards relating to the future acceptance of eNotes and the internal processes and system requirements that your institution will need to be prepared to follow once the Bank moves towards accepting eNotes as collateral in the residential portfolio.

### Imaged or Copied Notes

The Bank does not currently accept imaged or copied notes as collateral. The original ink-signed note must exist and be in your control or the control of your agent. If you have lost or destroyed the original note, the associated loan cannot be reported as eligible collateral.

### Lost Note Affidavit

Lost note affidavits are sometimes used by financial institutions to record the loss, theft, or destruction of an original note or lending document. The Bank does not currently accept loans as eligible collateral where a lost note affidavit exists in place of the original note. If the original note has been lost or destroyed, the associated loan should not be reported as eligible collateral.

### Modified Notes

If the original note has been modified, you must retain the original note modification document. If the original note has been modified multiple times, the Bank will require the retention of the original ink-signed note, all related copies of the intervening note modifications, and an original of the current note modification. If you have lost or destroyed any of these required documents, the loan should not be reported as eligible collateral.

### Purchased Loans

The Bank accepts loans that have been purchased from another institution as eligible collateral. If your institution purchased loans originated by another institution, you should provide the proper legal documents evidencing the purchase, which may include documentation such as purchase agreements, note endorsements, or allonges. Endorsement of a note is sufficient documentation of the sale or transfer of the note, provided that it is properly executed by the seller or in blank to the shareholder. Please note that the Bank does not accept purchased participations.

### Open-Ended or Partially Funded Loans

The Bank does not accept loans that are open-ended or partially funded as eligible residential, multifamily, or commercial, or farmland loan collateral. Except for certain loans that can be reported in the HELOC/HEL portfolio, loans reported as collateral must be both closed-ended and fully funded.

### Construction Loans

Construction loans are eligible as collateral if they are fully funded and improved with an acceptable completed structure. Evidence of completion per plans and specifications, or as appraised, must be included in the file.

## Borrowing Resolutions

The Bank accepts loans to non-natural borrowers in the residential, commercial, multifamily, and farmland portfolios. Non-natural borrowers are defined as legal entities such as corporations, limited liability companies (LLCs), partnerships, or any other business entity.

Loans made to non-natural borrowers must include a borrowing resolution that specifically authorizes certain individuals to sign and incur debt on behalf of the borrowing entity. The resolution can be dated after the date of the loan transaction but must be dated on or before the effective date of loan reporting to be eligible. Borrowing resolutions that are not dated will not be accepted as eligible documentation.

### Alternative Documentation

In lieu of a borrowing resolution, any of the following documents can be utilized for eligibility purposes provided that the documents are dated on or before the effective date of loan reporting:

- A legal opinion from the borrower's counsel that assures proper corporate authority actions have been taken
- A secretary's certificate that indicates the resolutions were passed authorizing certain individuals to sign and incur debt on behalf of the borrowing entity
- Corporate bylaws or operating agreements that provide specific language on the borrowing abilities of individuals

## Mortgages, Deeds of Trust, Deeds to Secure Debt

An eligible mortgage, deed of trust, or deed to secure debt must be executed and recorded in accordance with applicable state law. Copies of recorded mortgages are acceptable as eligible collateral, but the recording information must be legible. All mortgage modifications (if applicable) must be properly executed and recorded as well. The mortgage amount and maturity date must equal or exceed the outstanding unpaid principal balance (UPB) and stated maturity of the applicable note.

You may report as mortgage collateral any of the following, provided you meet the specific requirements of each:

- **Mortgage Recordation** – All mortgages should be recorded in the land record of the city/county where the underlying collateral is located. The Bank gives a special allowance for mortgages originated within the last 12 months that have been sent out for recording but not yet returned from the recorder's office. In such situations, a copy of the executed and unrecorded mortgage should be retained in the loan file.
- **Mortgages With Future Advance Clauses** – Mortgages, deeds of trust, or deeds to secure debt that include future advance clauses are acceptable as long as they do not violate any applicable state laws. You can report any mortgage with a UPB balance amount that exceeds a defined mortgage amount in situations where a future advance clause exists.
- **Mortgages Without an Expiration Date** – You can report a mortgage without an expiration date as long as the failure to include an expiration date does not violate applicable state law.
- **Mortgages in the Name of another Lender** – Mortgages closed in the name of another lender are acceptable as long as they are properly assigned to your institution. The assignment should evidence your institution as the beneficiary of the mortgage.
- **Recording of Assignments** – Mortgages, deeds of trust, or deeds to secure debt originated in the name of another lender must show evidence that they have been properly assigned to your institution. The Bank requires all copies of assignments to be recorded. However, if you are able to provide the original fully executed assignment, evidence of recordation is not required. The same rule applies for assignment of bulk purchases. Copies of bulk purchase assignments will need to show evidence of recordation. Original versions, however, do not require such evidence.
- **Mortgage Electronic Registration System (MERS)** – MERS is an electronic registry that tracks the servicing rights and ownership interests of registered mortgage loans through a unique 18-digit number known as the Mortgage Identification Number (MIN). By tracking loan transfers electronically, MERS eliminates the need to have an assignment recorded with the relevant county each time a loan is sold from one institution to another. The Bank will not require evidence of recordation of assignments for mortgages registered through MERS.
- **Mortgages with Borrowers Different from Owners of Mortgaged Property** – You may report a loan in instances where the borrower differs from the owner of the mortgaged property if the property owner has executed the mortgage that serves as security for the note.

## Mortgages Executed by a Power of Attorney

Certain jurisdictions require a power of attorney to be recorded, and some also require the power of attorney to be recorded in conjunction with the mortgage. The Bank requires evidence that the power of attorney has been properly recorded in accordance with each applicable state jurisdiction.

### POA Recordation

Within the Bank's footprint (Alabama, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia), Alabama is the only state that does not require recordation of Power of Attorney. Military POAs must be recorded in all states.

## Recording of Modifications

Generally, all mortgage modifications should be recorded. In addition, if a note modification agreement adds substantive new provisions to the mortgage, deed of trust, or deed to secure debt, it is not just a change to the note terms, but also a modification to the mortgage. All such modifications should be recorded in the real property records where the subject property is located.

### Substantive New Provisions

An example of a substantive new provision created by a note modification agreement would be the addition of a future advance clause where none existed in the original mortgage, deed of trust, or deed to secure debt.

## Lien Position Verification

When reporting residential mortgage collateral to the Bank, you must verify that each mortgage is in first lien position. When reporting HELOC/HEL collateral to the Bank, you must verify that each mortgage is in first or second lien position. Verification of lien position should be obtained for the mortgage collateral on or before the effective date of reporting.

## Acceptable Documentation of Lien Position

The Bank requires post-closing lien verification documentation for evidence of lien position. Final title insurance policies, attorney opinions, and lien searches are acceptable documentation when sufficient information is obtained to provide a clear picture of lien position and vesting of the collateral.

## Post-Closing Lien Searches

When reporting collateral in either the residential or the HELOC/HEL portfolios, the post-closing lien searches you provide should meet the following requirements:

- The lien search should be conducted on the legal description or physical address of the property, except in those states or counties where loan indexing is available only for the grantor/grantee. The lien search should include vesting information for the property.  A search conducted in the name of the borrower is not acceptable as it will not identify liens filed against the property in the name of other individuals or entities. Searches conducted in states with only grantor/grantee indexes must include searches of tax records and clerks of court records in order to identify judgments, tax liens, and other issues that impact the lien position of the property. The post-closing lien search must also identify all open and active liens filed against the property and should not be limited just to real estate transactions.
- Post-closing lien searches should be conducted, at a minimum, through the date that the subject loan was recorded. Recordation information must be clearly visible on the lien search document.
- Post-closing lien searches should be obtained for the mortgage collateral on or before the effective date of reporting.
- Post-closing lien searches not meeting the above requirements will not be accepted as eligible documentation.

**Special Allowances for Newly Originated Mortgage Loans** – If you have not received the post-closing lien search from the attorney office or title insurance company prior to the effective date of reporting the loan, the Bank will accept preliminary lien searches up to 12 months after the date of origination. However, if the preliminary lien search shows the existence of a prior lien(s) that would put the subject mortgage in an ineligible lien position, you will need to provide documents listed within either one of the following two paragraphs to evidence satisfaction of the prior lien(s):

1. A final, executed settlement statement showing the payoff to the prior lien holder accompanied by a payoff letter dated within 30 calendar days of the settlement date that can be reconciled to the payoff amount indicated on the final, executed settlement statement, and *either* of the following additional supporting documents:
    - A wire transmittal that reconciles to the payoff amount indicated on the final, executed settlement statement
    - A copy of a check that reconciles to the payoff amount indicated on the final, executed settlement statement
2. A final, executed settlement statement showing the payoff to the prior lien holder accompanied by any *one* of the following:
    - A recorded copy of the Release/Satisfaction, which may have been recorded after the effective date of reporting (when the final, executed settlement statement evidences that the actual payoff occurred *on or prior to* the effective date of reporting)
    - An unrecorded copy of the Release/Satisfaction, which may have been executed after the effective date of reporting (when the final, executed settlement statement evidences that the actual payoff occurred *on or prior to* the effective date of reporting)

- A paid-in-full letter from the prior lien holder acknowledging satisfaction of the debt (when the final, executed settlement statement evidences that the actual payoff occurred *on or prior* to the effective date of reporting)

**Documenting Satisfaction of Prior Lien for Post-Closing Lien Searches** – Because of error or timing, a post-closing lien verification document may indicate that a mortgage is in second or third position when in reality it is not. This inaccurate lien position can be cured if you can provide proof that the prior lien(s) has been satisfied/cancelled. You may do so by submitting a satisfaction or cancellation *recorded on or before* the effective date of reporting, or an updated lien search *performed on or before* the effective date of reporting.

Settlement statements and copies of cancelled checks cannot be used as proof of satisfaction if the loan origination date was greater than 12 months from the effective date of reporting. If acceptable post-closing verification of the required lien position does not exist on the effective date of reporting, the loan should not be reported as eligible collateral until this document can be obtained.

## Bring-Down Lien Searches

A bring-down (also called *date-down*) lien search is used in conjunction with a preliminary lien search. The bring-down search starts the day after the "searched through" date of the preliminary lien search and extends, at a minimum, through the recording date for the loan. It is used to identify any additional, or intervening, filings against the property during the gap period between the underwriting of the loan and the recording of the mortgage.

You must provide both the preliminary lien search and the bring-down lien search in order to meet the Bank's lien verification requirements. However, please be aware that there may be liens noted on the preliminary and bring-down searches that may put the subject mortgage in an ineligible lien position when the reports are read together. The Bank will accept either a satisfaction or cancellation *recorded on or before* the effective date of reporting, or an updated lien search *performed on or before* the effective date of reporting as proof that the prior lien(s) has been satisfied/cancelled.

## HELOC/HEL Requirements

Mortgages reported in the HELOC/HEL portfolio may include loans and lines of credit in either a first or second lien position. Lien verification requirements for this collateral depend on whether the loans/lines are greater than or equal to $250,000, or less than $250,000.

### HELOCs/HELs ≥ $250,000

Reported loans/lines greater than or equal to $250,000 have the same general lien verification requirements as residential loans above, which includes:

- You must provide post-closing lien verification demonstrating that the recorded mortgage is in a first or second lien position. The post-closing verification can be evidenced by a final title insurance policy, an attorney's opinion, or a post-closing lien search conducted on the legal description or physical address of the property.
- Post-closing lien verification for HELOCs/HELs greater than or equal to $250,000 must be obtained on or before the effective date of reporting.

### HELOCs/HELs < $250,000

You may submit preliminary or pre-closing lien searches if you report loans/lines less than $250,000 that meet the following criteria:

1. The lien search was conducted no more than 45 days prior to the origination date
2. The lien search examined the public records in the county and state in which the property is physically located, and was conducted on the legal address or physical description of the property except in those states or counties where indexing is available only for the grantor/grantee. A search conducted in the name of the borrower is not acceptable as it will not identify liens filed against the property in the name of other individuals or entities. Searches conducted in states with only grantor/grantee indexes must include searches of tax records and clerks of court records in order to identify judgments, tax liens, and other issues that may impact the lien position of the property. The lien search must identify all open and active liens filed against the property and not just be limited to real estate transactions.
3. The lien search is accompanied by a signed borrower affidavit representing that the liens disclosed in the lien search are the only liens outstanding as of the application date and that no other loans secured by the underlying property were in process.

If you are unable to meet any of the above preliminary lien search requirements for HELOCs/HELs less than $250,000, post-closing lien verification must be obtained to evidence the loan is in a first or second lien position.

## Documentation In Lieu of Borrower's Affidavit

When reporting HELOCs/HELs less than $250,000 with pre-closing lien searches, the Bank will accept a borrower-signed and dated application meeting certain requirements in lieu of a separate borrower's affidavit. The Bank requires that the application details the current mortgage and any other liens against the property, and it should include, at a minimum, statements with language similar to all of the following:

- "The information provided in this application is true and correct as of the date set forth opposite my signature and that any intentional or negligent misrepresentation of this information contained in this application may result in civil liability, including monetary damages, to any person who may suffer any loss due to reliance upon any misrepresentation that I have made on this application, and/or in criminal penalties including, but not limited to, fine or imprisonment or both under the provisions of Title 18, United States Code, Sec. 1001, et seq." and,
- "The loan requested pursuant to this application (the "Loan") will be secured by a mortgage or deed of trust on the property described herein." and,
- "The Lender and its agents, brokers, insurers, servicers, successors, and assigns may continuously rely on the information contained in the application, and I am obligated to amend and/or supplement the information provided in this application if any of the material facts that I have represented herein should change prior to closing of the Loan."

## Documenting Satisfaction of Prior Lien for Pre-closing Lien Searches

If any of the documentation discussed above indicates the presence of a prior lien that would put the subject mortgage in an ineligible lien position, you may obtain either one of the following documents to evidence the required lien position:

- A copy of the satisfaction or cancellation for the prior lien(s) recorded on or before the effective date of reporting.
- Post-closing lien search conducted on the property description that indicates that the prior lien(s) has been satisfied. Post-closing lien searches may be obtained after the effective date of reporting for loans with line commitments less than $250,000.
- Final executed settlement statements and copies of checks can be used as proof of satisfaction if the loan origination date was less than or equal to 12 months from the effective date of reporting.

## Mortgage Lien Protection (Loss Coverage) Policies and Service Agreements

The Bank does not accept mortgage lien protection insurance policies or service agreements as proof of lien position in lieu of title insurance policies, attorney opinions, or lien searches for the following reasons:

- The insuring provisions of these products typically do not require public record property searches to identify outstanding liens filed against the properties securing the loans
- These products do not specify that only first and second lien positions are insured; they typically provide coverage for loans in lien positions inferior to the Bank's collateral requirements

## Non-Mortgage Related Liens

Non-mortgage liens such as the following will affect the eligibility of loans required to be in first lien position. These non-mortgage liens may also affect the eligibility of second lien loans if other prior liens exist.

- tax liens with amounts due and payable for the current calendar year or prior years
- mechanic's liens that have not been satisfied as evidenced by a recorded release or satisfaction or mechanic's liens that have not expired under the applicable statute of limitations
- other liens in advance of the lien your institution holds

## PACE Loans

Loans secured by properties that are subject to PACE liens with priority over your institution's lien are not eligible for reporting. Property Assessed Clean Energy (PACE) is a government initiative that allows property owners to finance energy-efficient and renewable energy projects for their homes as well as for multifamily and commercial buildings.

**PACE Loan Examples**

Examples of projects that may be financed with PACE loans include insulation, weather sealing, new windows, heating and cooling systems, and solar panel installation.

Property owners repay this financing through special tax assessments for up to 20 years. If the property is sold during the repayment period, the repayment obligation is transferred automatically to the next property owner via the special tax assessment unless the existing property owner elects to pay off the PACE financing in conjunction with the sale of the property. PACE financing that is structured as an assessment on the property (rather than a loan) would have the same lien priority as property taxes, thereby creating a superior lien interest over existing mortgage liens. Lenders may not receive notification of the liens from the originators of the PACE financing.

## Private Transfer Fee Covenants

The Bank has restrictions on the eligibility of mortgage loans that are encumbered by a private transfer fee covenant. Mortgages containing private transfer fee covenants created before February 8, 2011, are considered eligible collateral if the loans meets all other eligibility criteria. Mortgages containing private transfer fee covenants that were created on or after February 8, 2011, are acceptable as collateral only in those cases where the private transfer fee is paid to an association for a purpose that directly benefits the real property encumbered by the covenant.

## Past Due Loans

You may not report loans that are greater than 30 days contractually late. Full payment must be received within 30 days of the due date for the loan to be considered eligible. If any portion of the payment is in arrears, then the loan is considered past due. The Bank's definition of past due loans supersedes your regulator's definition when determining eligibility.

## Additional Guidelines

The following additional guidelines address special past due cases you may encounter when deciding whether your mortgage collateral is eligible for reporting.

- **Payments Systems with Grace Periods**

  If you employ a payment system that allows for a grace period, mortgage loans may not show up as delinquent until the following month. These loans may be included as eligible collateral, as long as the loans do not exceed 30 days late from the contractually specified due date.

- **Loans with Workout Arrangements or Payment Plans**

  A loan subject to a workout arrangement or a bankruptcy court-ordered payment plan may be eligible as long as the loan is not classified as substandard, doubtful, or loss, and no portion of the payment is more than 30 days past due.

- **Past Due Loans that Become Current**

  A loan that was previously ineligible because it was past due can be reported as eligible collateral once it becomes current.

## Matured Loans

Loans that matured on or before the effective date of reporting are not eligible.

## Classified Loans

Loans classified internally or externally (by a regulatory entity) as substandard, doubtful, or loss are ineligible. However, you may report as collateral any "special mention" or internally classified "watchlist" loans.

## Employee, Officer, and Director Loans

If an employee, officer, director, attorney, or agent of your institution or of the Bank has any personal liability for a loan, the loan is ineligible as collateral and should not be reported. An agent is a non-employee that has been authorized to conduct business on behalf of your institution or the Bank.

### Affiliated Shareholder Entities

Loans to employees, officers, and directors of your affiliates such as subsidiaries, sister banks, and holding companies are eligible, except in the case where the affiliate has entered into an affiliate joinder agreement by and among the Bank, the shareholder, and the affiliate. In this case, the affiliate's loans are subject to the same collateral eligibility requirements for loans to employees, officers, directors, attorneys, or agents required for your institution. See the Requirements for Use of Collateral of an Affiliate section of the Member Products and Services Guide for additional information.

### Partnerships, LLCs, and Syndicates

If an employee, officer, or director of your institution or of the Bank is personally liable for any portion of the debt, the loan is ineligible for reporting. Personal liability includes employee, officer, or director personal guarantees for loans to non-natural borrowers such as limited liability companies (LLCs) and partnerships.

### Family Members

Loans to family members of employees, officers, and directors are eligible collateral provided that the employee, officer, or director is not personally liable.

## FHLBank Atlanta Employees

Loans made to Bank employees are not eligible collateral.

## Loan Participations

The Bank does not accept loan participations as eligible collateral in the residential and HELOC/HEL portfolios. Loan participations are eligible in the commercial, multifamily, and farmland portfolios if they meet certain requirements.

## Syndicated Loans

Syndicated loans are not eligible for reporting in any portfolio.

## LTV Calculation

You should use the most recent valuation available on or before the effective date of reporting for LTV calculation. If you have not obtained a post origination valuation, use the valuation from loan origination.

For purchase money mortgages within 12 months of closing, the lower of the purchase price or the appraised value at the time of origination should be used for LTV calculation. For purchase money mortgages seasoned longer than 12 months, the most recent valuation on or before the effective date of reporting should be used for LTV calculation. If there is no recent valuation in the file, the LTV should be calculated on the lower of the purchase price or appraised value at origination.

Acceptable valuations include:

- Certified/professional appraisals
- Limited/AVM (automated valuation model) type appraisals
- Tax valuations and assessments
- Internal valuations

## LTV Requirements

The LTV requirements for residential and HELOC/HEL collateral include:

| Collateral Category | Maximum LTV | LTV Requirement |
| --- | --- | --- |
| **Residential Loans** | 130% post origination (See LTV Requirement) | LTV is calculated using the current UPB and the most recent valuation. If the current LTV is ≤ 100%, then the LTV at origination is not considered. If the current LTV (post origination) is > 100% and ≤ 130%, then the LTV at origination must have been ≤ 100%. |
| **HELOCs/HELs** | 100% | The combined LTV of the first and second loans may not exceed 100%. For HELOCs, use the *maximum* line amount, not the UPB. For home equity loans, use the UPB. |

## Loans Secured by Multiple Forms of Collateral

The LTV should be calculated using the total value of only the *eligible* collateral you report to the Bank. The value of ineligible collateral, such as vacant land, should be excluded from the calculation.

# Property Appraisals

When reporting collateral of any type, you must retain sufficient documentation in the loan file to support the property type and value. If you obtain an updated valuation after origination for any purpose, you must retain the most recent valuation, as well as the valuation at origination, in the file. An updated valuation must be dated on or before the effective date of reporting.

## Sufficient Appraisal Documentation

Appraisal documentation can include:

- Certified appraisals
- Limited/AVM (automated valuation model) type appraisals
- Tax valuations/assessments
- Internal valuations, which may be accompanied by tax records and/or comparable sales

Regardless of the type of documentation used, the Bank must be able to verify the property type.

The Bank will consider tax assessments as valuation documentation for loans reported as collateral only when you rely on the tax assessments as a valuation source (at either origination or post-origination). The following additional guidelines apply:

- If you rely on a post-origination tax assessment as a valuation document for an individual loan, the Bank will treat the tax assessment as an updated valuation document for the purpose of calculating the LTV
- If there is no indication that you relied on the tax assessment for an updated valuation on an individual loan, the Bank will not use the tax assessment as an updated valuation document for the purpose of calculating the current LTV. Instead, the Bank will use the most recent valuation document, other than the tax assessment, to determine the current LTV
- If the only valuation document you provide for a loan is a tax assessment, the Bank will use the tax assessment as a valid valuation document to determine the current LTV

## Appraisals Subject to Completion

You may rely upon appraisals subject to completion if both of the following criteria are met:

1. The property is completed as described in the appraisal
2. You provide evidence of completion

Evidence of completion can be indicated by either a certificate of occupancy, certificate of completion, recertification of value, or a loan officer's certification.

## Restrictions on Acreage

The Bank accepts 1-4 residential improvements with five acres or less as eligible collateral in the residential and HELOC/HEL portfolios. If the property contains more than five acres, the Bank requires comparable sales in the immediate sub-market to show that the acreage is typical of the community. However, no more than 15 acres of land can be used to calculate the LTV ratio for the property. The value of the land exceeding 15 acres must be excluded from the calculation.

## Appraisals without Separate Value of Land and Improvements

For land acreage five acres or less, separate values for land and improvements are not necessary in the appraisal. If the appraisal does *not* specify the land acreage, or the acreage is more than five acres with no comparables to support the excess acreage, then you must provide the separate values of the land and improvements to determine if the loan meets the Bank's LTV requirements.

## Flood Insurance

Loans originated after September 23, 1994, with improvements located within a Special Flood Hazard area, as designated by the Federal Emergency Management Agency (FEMA), must meet the Bank's minimum flood insurance coverage requirements. A corresponding Standard Flood Hazard Determination Form must be available for review for all loans to determine if the improvements are located in a flood hazard area.

If a property is located in a special flood hazard area, the flood insurance must have been in force on the effective date of reporting.

## Minimum Coverage for Residential Loans

The minimum flood insurance coverage for residential 1-4 unit loans is the lesser of:

- The current UPB
- The replacement value of improvements
- $250,000

## Minimum Coverage for HELOCs/HELs

The minimum flood insurance coverage for HELOCs/HELs is the lesser of:

- The combined unpaid principal balances of the first and second liens
- The replacement value of improvements
- $250,000

## Additional Flood Insurance Guidelines

The following flood insurance guidelines apply to any mortgage collateral you report to the Bank secured by 1-4 residential unit dwellings:

- Flood insurance coverage obtained by the homeowners association, the builder, or the developer is permissible as long as the improvement coverage is the lesser of:
  - The replacement cost of the building(s)
  - The total number of units in the building(s) times $250,000
  - The current UPB of the loan

## Cross-Collateralization

The Bank must have a lien on all loans that are cross-collateralized in order for the reported loan to be eligible. If a reported loan is crossed-collateralized with a loan not pledged to the Bank under the Advances and Security Agreement, then you must sign and deliver a Pledge Supplement agreement. The Pledge Supplement gives the Bank a lien on the unpledged loan unless you have pledged that collateral to another entity such as The Federal Reserve Bank. The Pledge Supplement also acts to give the Bank a lien on any other loans that are crossed with loans not covered by the blanket lien under the Advances and Security Agreement. It is important to note that loans covered by the Pledge Supplement are not considered eligible loans and do not receive any collateral value. They should not be reported as eligible collateral.

The loan must specifically reference cross-collateralization with another loan or collateral in the note, mortgage, or other related loan documents. If the cross-collateralization language in the note, mortgage, or other related loan documents is not specific in nature, then it will not require further review for eligibility purposes.

### Generic Cross-collateralization Language

Generic cross-collateralizing language (also known as dragnet language) does not constitute cross-collateralization for the purpose of collateral eligibility. This type of language may also be in the form of a cross default clause. This type of clause only indicates that the loan can be called if the borrower/entity defaults on another loan or relationship.

A pledged loan with collateral that also has a second lien attached, with both appearing on the title, would not constitute a cross-collateralized loan.

## LTV Tests for Cross-Collateralized Loans

### Cross-collateralization

There are two LTV tests that are applied to cross-collateralized loans:

1. The first LTV test is specific to the subject loan. The subject loan must meet the Bank's LTV criteria for that portfolio (residential $\leq$ 130% if the loan originated with an LTV $\leq$ 100%, HELOC $\leq$ 100%, and commercial/multifamily/farmland $\leq$ 85%). If the subject loan passes the first test, then the second test is applied.
2. The second LTV test combines the subject loan with the crossed loans. When the subject loan is cross-collateralized with one or more loans, the combined LTV of the subject and the crossed loans must not exceed the Bank's LTV criteria for the portfolio in which the *subject loan* is reported.

If the subject loan does not pass both LTV tests, it will be ineligible for reporting. Please click here to see examples illustrating the eligible and ineligible status of three cross-collateralized loan scenarios.

## Guaranteed Loans

The Bank accepts USDA guaranteed loans as eligible collateral in the residential, commercial, multifamily, and farmland portfolios if the loan otherwise meets all requirements for the portfolio absent of the guarantee. No value will be provided for the guarantee and the loan will need to qualify against the Bank's requirements on its own merit.

## Ground Leases and Leasehold Interests

In order for a loan secured by a property subject to a ground lease or leasehold interest to be eligible collateral, the lease must be subordinate to the mortgage and the term of the lease must equal or exceed the note maturity. The exception to this requirement is long-term leaseholds in superior lien position that are held by power and utility companies or by the U.S. Army Corp of Engineers. Short-term ground leases in superior lien position (also held by power and utility companies or by the U.S. Army Corp of Engineers) that do not exceed the term of the subject mortgage can be eligible if the lease contains an automatic renewal clause.

### Loans Originated With Ground Rents (Maryland)

In Maryland, loans may be originated on certain residential properties that are subject to annual ground rents. If you report loans originated on subject properties located in Maryland with ground rents, you must retain the following documentation in each applicable loan file:

- The ground lease – to ensure term exceeds term of subject mortgage
- A copy of the County Registry (if registered) – to validate lease and ground lease rent amount
- A copy of the ground lease billing statement, if you do not escrow – to evidence lease is current

If all documentation above is verified, then the residential ground lease does *not* need to be subordinate to the subject mortgage. If the ground lease is not registered, the above requirements will not apply. However, once the lease is registered, you must meet all of the above requirements for the loan to be eligible.

## Anti-Predatory Lending

All residential mortgage collateral you report must comply with applicable federal, state, and local anti-predatory lending (APL) laws and other similar credit-related consumer protection laws designed to prevent or regulate abusive and deceptive lending practices and loan terms. This includes all rules, regulations, orders, and guidance put in place by any government or regulatory agency in connection with these laws. Collectively, these laws and their clarifications are called *Anti-Predatory Lending Laws*.

# Residential and HELOC/HEL Collateral in Detail

RES HELOC

A summary of the Bank's anti-predatory lending requirements is listed in the chart below. Residential mortgage collateral (including first lien 1-4 residential and first or second lien HELOC/HEL) that do not comply with these requirements will not qualify as eligible collateral. You are responsible for complying with these requirements, regardless of whether or not your institution originates or purchases residential mortgage collateral.

## FHLBank Atlanta Anti-Predatory Lending (APL) Requirements

The following requirements are applicable to mortgage collateral secured by an improved residential real property on which a 1-4 unit dwelling is located with the exception of loans to non-natural borrowers and loans for business or investment purposes, or loans secured by second homes

| **Loans Originated after October 1, 1995 and Prior to April 1, 2011** | **Loans Originated on or after April 1, 2011** |
|---|---|
| Prepayment penalties are permitted for the first five years of the loan term. | Prepayment penalties cannot exceed 3% in year one, 2% in year two, and 1% in year three. After the end of the third year, a prepayment penalty may not be imposed. |
| Mandatory arbitration is permitted if allowable under applicable state law. | Mandatory arbitration is *not* permitted, even if allowable under applicable state law. The prohibition applies to loans for which an application was received on or after June 1, 2013. It does not apply to loans for which the application was received before June 1, 2013, even if the loan was approved or funded on or after June 1, 2013. |
| The financing of single-premium credit insurance is prohibited (credit life, disability, employment, etc.). | The financing of single-premium credit insurance is prohibited (credit life, disability, employment, etc.). |
| The APR cannot exceed the Treasury Rate (for the applicable loan term) by more than 8% for first liens and 10% for second liens. | The APR cannot exceed the Average Prime Offer Rate (for the applicable loan term) by more than 6.5% for first liens and 8.5% for second liens. |
| Total points and fees cannot exceed the greater of:<br>• 8% of the total loan amount (original loan amount less non-finance charges)<br>• The annually adjusted maximum dollar amount of closing costs for low dollar loans | Total points and fees cannot exceed the greater of:<br>• 5% of the total loan amount (original loan amount less non-finance charges)<br>• If the loan amount is less than $20,000, the total fees must be the lesser of 8% of the loan amount or $1,000 |

## Documentation Needed for APL Testing

All residential and HELOCs/HELs originated after October 1, 1995, are subject to the anti-predatory lending APR and fees tests.

Loans for business purposes or investment properties, loans to non-natural borrowers, and loans secured by second homes are not subject to anti-predatory lending APR and fees tests.

You are required to retain documentation in the loan file that discloses the fees and the APR, such as the Truth-in-Lending Disclosure and closing disclosure, and the underwriting transmittal sheet or application completed at origination. If the APR is not available, you can perform a calculation of the APR at origination and the Bank will accept the calculated APR for testing purposes. If the APR is not available or cannot be calculated, the loan will be classified as ineligible collateral.

## Credit Insurance

Credit insurance includes life, disability, and other types of credit coverage. If the premiums are financed and prepaid, the loan is ineligible. If the premiums are paid monthly and calculated based on each month's UPB, the loan can be eligible if all other eligibility requirements are met.

Loans with prepaid single-premium credit insurance purchased by the borrower outside of the loan transaction (i.e., post-closing), can be considered eligible if all other eligibility requirements are met.

## Loans Purchased from another Institution

The Bank's APL Policy applies to residential 1-4 and HELOCs/HELs originated by your institution or loans purchased from another institution.

For more information, please see the Bank's "Guidelines to Promote Responsible Lending" in the Member Products and Services Guide.

## Subprime and Nontraditional Loans

Certain loans with subprime or nontraditional characteristics can be eligible if sufficient mitigating factors exist. See Mitigating Factors for Subprime and Nontraditional Loans.

### Subprime Loan Criteria

The two criteria that must be considered in order to determine if a loan is subprime are the borrower's credit score and debt-to-income (DTI) ratio at origination of the loan. Per the Bank's policy, subprime loans are those with:

- Credit score ≤ 660 and a DTI ≥ 50%
- Credit score ≤ 620 and a DTI ≥ 40%
- Credit score is missing and DTI ≥ 40%
- Both credit score and DTI are missing

You may also consult the table below for the criteria that will determine subprime classification.

**Subprime Classification**

Subprime classification is applied to loans reported in both the residential and HELOC/HEL portfolios.

| | | Subprime/Not Subprime Loan Classification | | | |
|---|---|---|---|---|---|
| | | DTI | | | |
| | | < 40% | ≥40% & < 50% | ≥50% | Missing |
| Credit Score | > 660 | Not Subprime | Not Subprime | Not Subprime | Not Subprime |
| | > 620 & ≤660 | Not Subprime | Not Subprime | Subprime | Subprime |
| | ≤620 | Not Subprime | Subprime | Subprime | Subprime |
| | Missing | Not Subprime | Subprime | Subprime | Subprime |

Please also consult the table below for the credit score that should be used if more than one credit score was pulled or the loan has more than one borrower.

| | | # of Credit Scores | | |
|---|---|---|---|---|
| | | **1** | **2** | **3** |
| **Borrower(s)** | **1** | Use the only credit score | Use the lower of the two credit scores | Use the middle credit score |
| | **2** | Use the lower of the two credit scores | Use the lower of the two lowest credit scores | Use the lower of the three middle credit scores |
| | **3** | Use the lowest of the three credit scores | Use the lowest of the three lowest credit scores | Use the lowest of the three borrowers' middle credit scores |

## Subprime Loans Originated On or After July 10, 2007

Loans originated on or after July 10, 2007, with a subprime classification must demonstrate that there were sufficient mitigating factors present in the loan file at origination in order for it to be considered eligible. Subprime loans originated on or after July 10, 2007, that cannot demonstrate evidence of sufficient mitigating factors at origination of the loan are not eligible for reporting.

## Exclusions from Subprime Classification

Some loans are excluded from subprime classification. These include residential and HELOCs/HELs on investment properties or for business purposes.

## Nontraditional Loan Criteria

Nontraditional loans are characterized in two ways: payment structures and loan underwriting documentation. Nontraditional payment structures include loans with interest-only (IO), negative amortization, and payment option ARM features. Nontraditional loans can also be characterized by low levels of underwriting documentation (e.g., reduced or no-doc loans).

Loans that have amortizing principal and interest payments (fixed rate, adjustable rate, or balloons) and also verified income documentation (full documentation or alternative documentation) are considered traditional documentation and are therefore exempt from nontraditional classification. Desktop Underwriter (DU) or Loan Prospector (LP) approvals requiring only verbal verification of employment (VOE) are considered to be traditional documentation if all conditions listed on the DU/LP approval have been met.

## Nontraditional Payment Structures

**IO Fixed:** A loan in which the borrower pays only the interest on the principal balance for a set term; the principal balance does not change during that term. IO loans may have an option to convert to an amortizing payment structure after the fixed-rate IO period.

### Interest-only (IO) Classification

Please note that if the loan was previously IO but converted to an amortizing loan (with no option for IO in the future), it would not be considered IO. IO loans with amortizing conversions in the future that are still in the IO phase are considered IO. Make sure payment option ARM loans with an IO feature are categorized as payment option ARM loans and not as IO loans. Payment option ARM loans follow the same guidelines with respect to the origination date and adequate mitigating factors.

**IO ARM/Hybrid:** IO ARMs allow borrowers to make interest payments, rather than principal and interest payments, during the IO period. Once the IO period is up, the borrower is required to make monthly principal and interest payments that will fully amortize the loan over the remaining loan term. Hybrid ARMS require principal and interest payments beginning with the first payment.

**Neg Am:** Negative amortization loans have a payment schedule that allows the payment to be lower than the interest due. In any month that the interest due is not paid fully, the interest is added to the principal and the loan balance increases.

**Pay Option ARM:** This type of loan has an adjustable interest rate, and the borrower has an option each month to pay the traditional principal and interest payment, an IO payment, or a minimum payment. The minimum payment may be less than the actual IO payment, in which case the loan will have negative amortization that increases the outstanding loan balance.

## Nontraditional Loan Documentation (Reduced or No Documentation Loans)

**SISA (Stated Income/Stated Asset):** Borrowers income and assets are listed on the loan application but neither is verified. Loan must meet all DTI and asset underwriting requirements.

**SIVA (Stated Income/Verified Asset):** Borrowers income is listed on the loan application but is not verified; assets are listed on the application and are verified. Loan must meet all DTI and asset underwriting requirements.

**NIVA (No Income/Verified Assets):** Borrower income is not listed; employer is stated on the loan application but is not verified. Assets are listed on the application and are verified.

**NINA (No income/No Asset):** Neither the borrowers income or assets are listed on the loan application. Only the borrower’s employer is listed on the application and is verified.

## Nontraditional Loans Originated On or After July 10, 2007

Loans originated on or after July 10, 2007, with a nontraditional classification must demonstrate that there were sufficient mitigating factors present in the loan file at origination in order for it to be considered eligible. Nontraditional loans originated on or after July 10, 2007, that cannot demonstrate evidence of sufficient mitigating factors at origination of the loan are not eligible for reporting.

## Exclusions from Nontraditional Classification

While business purpose loans and loans on investment properties are tested for nontraditional characteristics, mitigating factors are not required for loan eligibility purposes.

## Loan Modification Impact on Subprime/Nontraditional Classification

Loan modifications or renewals can impact the subprime classification of a loan within the residential and HELOC/HEL portfolios and the nontraditional classification within the residential portfolio. The impact on the classification can occur if the modification or renewal was determined to constitute a new loan.

Below are a few instances where the Bank would consider a loan modification or renewal to be a new loan:

- The file contains new credit and income documents that were relied upon to make an updated credit decision
- The change in terms are such that there are new disclosures and significant changes to the previously existing terms
- Your institution is taking on more credit or repayment risk for the loan

The examples below are provided as additional resources to determine whether a modification/renewal is considered a new loan or not a new loan.

### Example 1: New Loan

- The original term of the loan recently expired
- There is a new loan agreement with a different interest rate and new terms
- No additional money was advanced
- The file contains new income documentation, new credit bureau reports, and an underwriting transmittal along with new disclosures

### Example 2: New Loan

- The original term of the loan recently expired
- There is a new loan agreement converting a fixed rate loan with principle and interest payments to an interest-only structure
- No additional money was advanced
- There are no new income docs, underwriting transmittal, credit report, or disclosures

### Example 3: Not a New Loan

- The original term of the loan recently expired
- There is a new loan agreement (same interest rate and payment) and new maturity date
- No additional money was advanced
- The only new underwriting document in the file is a new credit bureau report
- There are no new income documents, underwriting transmittal, or disclosures

## Mitigating Factors for Subprime and Nontraditional Loans

Subprime and nontraditional loans originated after July 10, 2007, must have adequate mitigating factors at the time of origination to be considered eligible collateral. Mitigating factors help offset the inherent risk of a subprime or nontraditional loan. You should evaluate the creditworthiness of the borrower to determine the adequacy of the mitigating factors.

All mitigating factors need to be supported by the documentation in the loan file. The number of mitigating factors may vary from loan to loan.

### Examples of Mitigating Factors for Subprime and Nontraditional Loans

A few examples of mitigating factors for subprime and nontraditional loans include:

#### Loan Structure

- Rate reduction/payment reduction
- Loan provides for converting a variable rate to a fixed rate, offering a predictable payment
- Loan provides for converting an interest-only loan to an amortizing loan within a reasonable timeframe
- Loan provides for converting a pay option ARM loan to a fixed-rate amortizing loan within a reasonable timeframe

- Loan has converted from an interest-only loan to a fixed-rate loan
- Full documentation loan

## Borrower

- Verified liquid assets, such as marketable securities, cash, bonds, and 401(k) withdrawal – typically 70 percent after taxes and early withdrawal penalty
- For purchase transactions, the borrower made a substantial down payment or had large cash reserves remaining after closing costs
- Cash reserves (six months housing payment verified by borrower bank statements or verification of deposits from all sources)
- Residential stability (10 years or greater)
- Borrower finances indicated an established or improving savings pattern before the loan origination date that can be verified by bank account statements or verification of deposits from all sources

## Credit Factors

- Acceptable payment history of prior mortgage on credit report
- Primary wage earner credit score above 660
- Satisfactory repayment history of all loans with your institution
- Temporary circumstances beyond borrower's control (divorce, medical issues, etc.) that have since been resolved, and the loan file shows proof that circumstances have been removed
- Borrower's credit reports and payment history with your institution indicate that borrower is paying debts as agreed after resolving credit issues
- Improving history of borrower's use of credit per credit reports for a minimum of two years (e.g., open revolving/installment credit should show reducing balances and no new accounts opened during the two-year period)
- Limited use of credit

## Employment Factors

- Employment in high-demand industry, such as nursing, engineering, education, etc.
- Tenure with current employer or having self-employed business for more than five years
- Verification of employment, most-current pay stubs, or your institution's credit approval indicates that the borrower obtained new employment or was elevated to a different position at a higher pay rate before the loan origination date

### Property

- LTV is no greater than 50 percent at origination, provided your institution used a certified appraisal

### Other

- Guarantor of the loan has verified assets, credit, and DTI

## Income Underwriting Documentation

The Bank provides guidelines regarding underwriting documentation that impact the classification and collateral review of loans you report. You must retain in each loan file underwriting documentation to determine if the loan has subprime or nontraditional characteristics.

The Bank cannot accept printouts from an origination or underwriting system that do not include copies of the actual documents. For example, a notation of the credit score is not adequate. A copy of the credit report utilized at origination must be retained in the loan file. In addition, the borrower's DTI ratio calculated at origination will not be adequate without the documents supporting the borrower's income. Loans for which income and assets are verified and documented over a two-year period (full documentation loans) or loans where a simpler form of verification of income and assets is utilized – such as paystubs, W-2s, verification of employment (VOE) (alternative documentation loans) – are both acceptable to the Bank.

### Verbal VOEs

Desktop Underwriter (DU) or Loan Prospector (LP) approvals requiring only verbal VOE are also accepted as traditional documentation if all conditions listed on the DU/LP approval have been met.

## Modifications and Renewals

If a modification or renewal has resulted in significant change to the loan such that it is now considered a new loan, then the underwriting documents associated with the modification or renewal must be retained in the loan file.

## Multiple Credit Reports

The Bank's collateral eligibility requirements relate to underwriting information used to originate the loan. Therefore, if there are several credit reports in the file that were dated prior to the loan closing, the credit report dated the nearest to the closing date must be used for eligibility purposes.

## DTI Calculations

You must retain a DTI calculation in the file for any loan made to borrowers where the loan is secured by a primary or secondary residence. Loans without evidence of a DTI calculation at origination of the loan, even if the file contains income documents, can impact eligibility if a determination cannot be made that the income documents in the file were used in the approval process. Loans where there is no evidence that the income documents were used in the approval process should be analyzed for subprime and nontraditional characteristics prior to reporting.

If the loan was originated after July 10, 2007, satisfactory mitigating factors must be retained in the file for it to be considered eligible.

A DTI calculation is not required on business purpose loans for the loans to be eligible.

## Post-Origination Documents

Subsequent documentation obtained for other loans will not be relevant to the original underwriting decision for the loan being reported. Such subsequent documentation should only be used if the original loan has been modified or renewed and the subsequent documentation relates to that modification or renewal.

## Qualified and Non-Qualified Mortgage Loans

The Bank accepts residential 1-4 mortgages and home equity loans regardless of whether the loans are designated as Qualified Mortgage or non-Qualified Mortgage loans subject to all other Bank eligibility requirements.

# SECTION THREE

## COMMERCIAL, MULTIFAMILY, AND FARMLAND COLLATERAL IN DETAIL

In addition to the general discussions of commercial, multifamily, and farmland collateral guidelines, this Commercial, Multifamily, and Farmland Collateral in Detail section offers more information on reporting these types of collateral. The commercial and multifamily categories are combined here because they have similar eligibility requirements. Before reporting collateral in these portfolios, you should review the following pages.

For details on other collateral portfolios, see the Residential and HELOC/HEL Collateral in Detail section of this guide.

If you have questions, please contact your Collateral Relationship Specialist.

**REMEMBER:** If you click on hyperlinked text and then want to return to the previous page, press the **ALT and Left Arrow** keys on your keyboard to navigate back.

# Commercial, Multifamily, and Farmland Collateral in Detail

CRE MF FARM

## Topics in this Section

To navigate directly to any one of the topics listed below, click on the topic text.


Property Type Eligibility – Commercial, Multifamily, and Farmland Loans

- Eligible Special Purpose Properties
- Ineligible Special Purpose Properties
- Residential Rental Properties
- Mixed-Use Properties
- Multi-Unit Dwellings
- Multiple 1-4 Family Unit Dwellings
- Places of Worship
- Condotels
- Recognized Environmental Concerns
- Loans Secured by Restaurants
- Farmland Properties

Notes

Borrowing Resolutions

- Alternative Documentation

Mortgages, Deeds of Trust, Deeds to Secure Debt

- Acceptable Collateral
- Mortgages Executed by a Power of Attorney
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**Special Note about the Effective Date of Reporting**

Please note that the phrase “effective date of reporting” used in the Guide is equivalent to the “Balances as of date” on the Qualifying Collateral Report (QCR) and the Collateral Verification Review (CVR) “as of” date.

## Property Type Eligibility – Commercial, Multifamily, and Farmland Loans

All portfolios of loan collateral require that the underlying properties contain a completed structure occupied or ready for occupancy with the exception of loans reported as farmland collateral. Loans secured by vacant land are ineligible for reporting in the commercial or multifamily portfolio. Loans secured by agricultural properties are eligible for reporting in the farmland portfolio. Loans secured by properties under construction are not eligible for reporting in any portfolio. For loans secured by a mixture of eligible and ineligible collateral types, the value of the ineligible collateral types cannot be used in the LTV calculation.

If a loan is secured by, and relies upon, qualifying collateral from more than one eligible collateral category, it should be reported in the category receiving the lowest lendable collateral value.

### Collateral from More Than One Category

Examples are provided below for loans secured by collateral from more than one category when both values are needed for LTV purposes. If collateral for a loan includes both residential and commercial properties, report the loan in the commercial portfolio. If collateral for a loan includes both residential and multifamily properties, report the loan in the multifamily portfolio. If collateral for a loan includes both multifamily and commercial properties, report the loan in the commercial portfolio. If collateral for a loan includes farmland and any other portfolio type, report the loan in the farmland portfolio.

| Collateral Category 1 | Collateral Category 2 | Reporting Category |
|---|---|---|
| **Commercial** | Residential | Commercial |
| **Multifamily** | Residential | Multifamily |
| **Farmland*** | Residential | Farmland |
| **Farmland*** | Commercial | Farmland |

*Loans secured by, and relying upon, farmland collateral and any other eligible portfolio type should be reported in the farmland portfolio.

Loans reported as commercial first and second mortgage collateral should be secured by improved commercial real property, including:

- Retail – Shopping malls, power centers, grocery-anchored shopping centers, fashion/specialty centers, unanchored strip centers, outlet centers, convenience stores, and free standing retail.
- Office – Single- and multi-tenant office buildings, executive suites, medical office, government office, banks

- Hotel/Motel – Full service hotel, limited service hotel/motel
- Industrial – Warehouse, distribution, research and development, flex and other light industrial, including properties with above-ground storage tanks (ASTs) with no evidence of leakage
- Top 10 restaurants – Franchised restaurants that are nationally ranked and recognized as one of the top 10 restaurants based on either sales revenue or units operated
- Places of worship (with LTV ratios of 75 percent or less)
- Assisted living facilities, nursing homes, retirement homes
- Funeral homes
- Community centers
- Mini storage
- Daycare centers (preschool onsite is permitted)
- Veterinarians and animal hospitals (may include kennels, dog runs)
- Condotels
- All property types with the potential for environmental issues, such as gas stations, automobile repair facilities, dry cleaners, or underground storage tanks(UST) are eligible if the member has a clean Phase 1 environmental site assessment for that property and the member is not in delivery

## Eligible Special Purpose Properties

In addition to the property types listed above, the Bank also accepts as eligible collateral loans secured by certain special purpose properties. These loans receive 50 percent of the lendable collateral value given to standard commercial real estate loans. Please note that this list is not exhaustive as there may be other performing commercial property types that meet the Bank's eligibility requirements. Please contact the Collateral Relationship Specialist assigned to your institution, if you have additional questions.

**Examples of eligible special purpose properties include:**

- Amusement parks and centers
- Aquatic centers
- Auditoriums
- Banquet and special event halls
- Bowling alleys
- Broadcast facilities
- Carriage house or horse stables; equestrian centers
- Car sale lots

- Car wash facility
- Catering halls and facilities
- Clubhouses and pavilions
- Cold storage facilities
- Colleges, universities, or schools
- Convention centers
- Dairy processing plants
- Feed mills
- Fraternities/sororities
- Grain elevators
- Golf courses and driving ranges, if collateral also includes amenities such as pro shop, restaurant, changing rooms, etc.
- Hospital or treatment centers
- Stand alone laundromats, theaters, and fitness centers
- Libraries
- Lighthouses
- Lodges
- Lumber yards (with no sawmill included)
- Nurseries/greenhouses with retail or wholesale sales
- Parking garages
- Post offices
- Racetracks
- Recreation centers
- Roller/ice skating rinks
- Sports arenas and stadiums
- Wineries

### Properties with Potential Environmental Issues

Any eligible special purpose properties that have the potential for environmental issues must have a clean Phase I environmental site assessment in order for the loan to be accepted as eligible collateral.

## Ineligible Special Purpose Properties

The following is a list of property types the Bank deems as ineligible collateral. The list is not all-inclusive as ineligible property types are analyzed on a case by case basis at the Bank's discretion. Ineligible property types include:

- Commercial real estate properties with noted or unresolved environmental issues in the Phase 1 or Phase 2 (or similar environmental reports)
- Vacant land or similar properties such as mobile home parks, campgrounds, fish camps, RV parks, and parking lots (includes lots with a payment booth and attendant)
- Marinas, including slips, docks, and dry dock storage facilities
- Sawmills
- Radio or cell towers
- Stand-alone restaurants not on the Eligible Restaurant List, including coffee shops, bakeries, etc.
- Bars/night clubs/casinos
- Correctional facilities
- Incinerators
- Military properties
- Mineral mines, quarry sites
- Landfills/junkyards
- Sewage treatment facilities
- Explosive manufacturing facilities
- Heavy industrial plants (petroleum plants, meat processing plants, power plants, public utility sites, steel mills, foundries, etc.)

## Residential Rental Properties

Loans secured by residential 1-4 dwellings that are primarily used as a rental property should be reported in the residential or HELOC/HEL portfolio.

# Commercial, Multifamily, and Farmland Collateral in Detail

## Mixed-Use Properties

Loans secured by mixed-use properties are eligible for reporting in the commercial portfolio.

**Mixed-Use Properties**

A property that is comprised of residential and non-residential (commercial/multifamily) space. An example of a mixed-use project could include lower-level retail and upper-level apartments.

## Multi-Unit Dwellings

Acceptable multi-unit dwellings can include properties such as duplexes, triplexes, and quadplexes. If the number of units in a group of duplexes, triplexes, or quadplexes exceeds four, and all are on the same parcel, then these should be reported in the multifamily portfolio. Residential dwellings with up to four units can be reported in the residential or HELOC/HEL portfolios. Loans secured by residential cooperatives are ineligible.

# Commercial, Multifamily, and Farmland Collateral in Detail

CRE MF FARM

## Multiple 1-4 Family Unit Dwellings

Loans secured by multiple 1-4 family unit dwellings should be reported in the residential portfolio provided that they meet all other eligibility criteria.

### Loans Secured by Multiple 1-4 Family Units

Loans secured by multiple condominiums, multiple single-family residences, or multiple townhomes are examples of loans secured by multiple 1-4 family unit dwellings.

## Places of Worship

Stand-alone churches, synagogues, and other houses of worship are eligible to be reported in the commercial portfolio and are not considered special purpose properties. The LTV for these properties is, however, limited to 75 percent or less.

Single-family homes used as a church office or parsonages are also eligible collateral and should be reported with the church in the commercial portfolio when located on the same site.

## Condotels

Loans secured by condotels (condo hotels) must be reported in the commercial portfolio.

### Condotel

A condominium project that is managed or operated like a hotel, motel, resort, inn, or lodge where the individual units are individually owned.

## Properties with Potential for Environmental Risks

Loan collateral secured by properties with the potential for environmental risk may be eligible provided a Phase 1 assessment was conducted on the subject property on or before the effective date of loan reporting and the report shows a clean or resolved status. The Bank will not accept environmental documentation such as government record searches and environmental questionnaires as evidence of a clean or resolved environmental status for properties with the potential for an environmental risk. In order to be eligible, the loan file must contain a clean or resolved Phase 1 environmental report.

**Examples of properties with potential environmental risk include:**

- Gas stations
- Convenience stores with gas pumps
- Auto repair facility
- Dry cleaners
- Properties with an active, closed, or removed underground storage tank, including office and multifamily properties
- Anchored retail centers with gas stations
- Retail centers with dry cleaners or oil change tenants
- Auto dealerships with auto service centers

## Recognized Environmental Concerns - RECs

Properties where the environmental report or other loan documentation indicates the presence of a recognized environmental condition (REC) and/or recommends that an assessment, further investigation, or other action be performed must have satisfactory third-party documentation retained in the loan file that the environmental concern(s) have been completely remediated in order for the property to be considered eligible collateral. The documentation retained as proof of the satisfactory remediation must provide a description of the remediation actions that were taken, as well as a conclusion that no further action is warranted on the subject property.

## Controlled Recognized Environmental Conditions - CRECs

Loans where the Phase 1 environmental site assessment concludes that there is a controlled recognized environmental condition (CREC) or lists any other known environmental contamination on the property ***are ineligible for reporting***. This would include loans secured by properties that have been designated as brownfields.

## Historical Recognized Environmental Conditions - HRECs

Properties that have been identified to have a historical recognized environmental condition (HREC) in the Phase 1 environmental site assessment that are not subject to additional regulatory review, property use restrictions, activity and use limitations, or institutional or engineering controls associated with a prior REC and with no further recommendations noted would be eligible for reporting.

## Historical Property Use with Environmental Risk

Properties where the historical usage of the collateral had the potential to result in an environmental risk (e.g., auto repair, dry cleaner, gas station, etc.) will require a Phase 1 environmental site assessment with a clean or resolved environmental status in order to be eligible for reporting regardless of the property's current use. The Phase 1 environmental site assessment must be conducted on or before the effective date of reporting the loan to the Bank.

All remediation actions must be completed on or before the effective date of reporting. If no remediation actions were completed on the subject property, or if there is insufficient third-party documentation to evidence the satisfactory remediation of the property, the loan is not eligible for reporting.

- **Properties with Underground Storage Tanks (USTs)** – Loans secured by properties with an active UST must have a Phase 1 environmental site assessment that was conducted on the property on or before the effective date of loan reporting that shows a clean or resolved environmental status in order to be eligible. For properties where a UST has been filled or removed, the Bank requires that an independently prepared environmental report be retained in the file that indicates a conclusion of no recognized environmental conditions identified as a result of sampling conducted post-removal or post-closure of the UST, and that no further action is required or recommended on the subject property. The environmental report must be dated after the UST was filled or removed, but on or before the effective date of the loan reporting. If no environmental report was prepared post-removal/post-closure of the UST, or if the environmental report that was prepared post-removal/post-closure of the UST does not meet these requirements, the loan is not eligible for reporting.

### USTs Containing Liquid Propane

USTs containing liquid propane are not considered to pose an environmental risk. Properties with an active UST that have been documented to contain liquid propane will not require a Phase 1 environmental assessment.

- **Anchored or Unanchored Strip Centers with Environmental Risk** – Anchored and unanchored strip centers are eligible collateral. However, if the property presents potential environmental risk due to tenants or commercial uses, the file must contain a Phase 1 environmental site assessment that was conducted on the property on or before the effective date of loan reporting.  The Phase 1 should have no noted recognized environmental conditions.

### Environmental Risk Tenant Example

For example, if a tenant in the center is an auto repair facility, gas station, or an onsite dry cleaner.

- **Dry Cleaners** – Dry cleaners are only eligible if a Phase 1 environmental site assessment has been conducted on the property on or before the effective date of loan reporting and the Phase 1 evidences a clean or resolved status. If the dry cleaning processing is done offsite, and evidence of such is in the loan file, a Phase 1 environmental site assessment will not be required.

## Loans Secured by Restaurants

The Bank accepts as eligible commercial real estate collateral stand-alone restaurants that are nationally ranked and recognized as one of the top 10 restaurants based on either sales revenue or units operated. This Eligible Restaurant List is updated annually. Restaurants located in gas stations or in retail centers with gas pumps would be subject to the requirements for loan collateral with potential environmental risk and would therefore require a clean or resolved Phase 1 environmental site assessment performed on or before the effective date of reporting the collateral to the Bank.

The top 10 restaurant criteria does not apply to restaurants located in properties such as multi-tenant strip centers or multi-tenant office buildings, when the subject loan is secured by a multi-tenant property.

The top 10 restaurant criteria applies to loans for which the collateral securing the loan includes only restaurant collateral. If the real estate collateral securing the loan includes other eligible real estate collateral in addition to the restaurant collateral, then the restaurant collateral is not limited to the top 10 restaurant list in order to be considered eligible.

## Farmland Mortgage Collateral

Loans reported as farmland first mortgage collateral should be secured by agricultural real property including:

- Land principally used for farming. (Land used for crops, orchards, livestock production, pasture land, and timber land)
- Property can include a 1-4 family residence, outbuildings, or other farm buildings
- No value is given to agricultural products of farmland
- No value is given to farm equipment or personal property

Before farmland loans can be reported, you must execute a short amendment to your Advances and Security Agreement to place a Bank lien on the farmland loans

### Agricultural Products Examples

Some examples of agricultural products are crops, fruits/nuts, livestock, eggs/meat/milk, and merchantable timber.

### Farm Equipment and Personal Property Examples

Some examples of farm equipment and personal property are irrigation systems, milking equipment, conveyors, tractors, and feed implements.

## Notes

A note should be properly executed and legally recognized as a debt obligation between you and the borrower. For the loan to be eligible, the note must be secured by a mortgage, deed of trust, or deed to secure debt on eligible real property.

### Original Notes

When reporting any mortgage loans as collateral, you must maintain possession or control of the original note and subsequent note modifications at all times. Loans held by a third party may be considered eligible mortgage collateral as long as you maintain control over the original note and other legal documents via a document custody or servicing agreement (or a similar agreement) and can deliver the original notes and other documents for review.

### Electronic Signatures

The Bank is currently developing internal requirements and processes for Future acceptance of eNotes as Collateral through the utilization of a phased in approach with the residential portfolio currently under development for the first phase. The Bank will review and determine future acceptance of eNotes as collateral for all other loan portfolios at a later date.

### Imaged or Copied Notes

The Bank does not currently accept imaged or copied notes as collateral. The original ink-signed note must exist and be in your control or the control of your agent. If you have lost or destroyed the original note, the associated loan cannot be reported as eligible collateral.

### Lost Note Affidavit

Lost note affidavits are sometimes used by financial institutions to record the loss, theft, or destruction of an original note or lending document. The Bank does not currently accept loans as eligible collateral where a lost note affidavit exists in place of the original note. If the original note has been lost or destroyed, the associated loan should not be reported as eligible collateral.

### Modified Notes

If the original note has been modified, you must retain the original note modification document. If the original note has been modified multiple times, the Bank will require the retention of the original ink-signed note, all related copies of the intervening note modifications, and an original of the current note modification. If you have lost or destroyed any of these required documents, the loan should not be reported as eligible collateral.

## Real Estate Related Bond Transactions

Real estate-related bond transactions, sometimes referred to as private placement bond loans, in which the indebtedness is secured by the issuance of a bond and a related mortgage on real property, and governed by a trust indenture agreement or other similar documents relating to the bond, are not currently eligible for reporting as standard real property loans.

## Purchased Loans

The Bank accepts loans that have been purchased from another institution as eligible collateral. If your institution purchased loans originated by another institution, you should provide the proper legal documents evidencing the purchase, which may include documentation such as purchase agreements, note endorsements, or allonges. Endorsement of a note is sufficient documentation of the sale or transfer of the note, provided that it is properly executed by the seller or in blank to the shareholder. Please note that the Bank does not accept purchased participations.

## Open-Ended or Partially Funded Loans

The Bank does not accept loans that are open-ended or partially funded as eligible residential, multifamily, commercial, or farmland loan collateral. Except for certain loans that can be reported in the HELOC/HEL portfolio, loans reported as collateral must be both closed-ended and fully funded.

## Construction Loans

Construction loans are eligible as collateral if they are fully funded and improved with an acceptable completed structure. Evidence of completion per plans and specifications, or as appraised, must be included in the file.

## Borrowing Resolutions

The Bank accepts loans to non-natural borrowers in the commercial, multifamily, farmland, and residential portfolios. Non-natural borrowers are defined as legal entities such as corporations, limited liability companies (LLCs), partnerships, or any other business entity.

Loans made to non-natural borrowers must include a borrowing resolution that specifically authorizes certain individuals to sign and incur debt on behalf of the borrowing entity. The resolution can be dated after the date of the loan transaction but must be dated on or before the effective date of loan reporting to be eligible. Borrowing resolutions that are not dated will not be accepted as eligible documentation.

### Alternative Documentation

In lieu of a borrowing resolution, any of the following documents can be utilized for eligibility purposes provided that the documents are dated on or before the effective date of loan reporting:

- A legal opinion from the borrower's counsel that assures proper corporate authority actions have been taken
- A secretary's certificate that indicates the resolutions were passed authorizing certain individuals to sign and incur debt on behalf of the borrowing entity
- Corporate bylaws or operating agreements that provide specific language on the borrowing abilities of individuals

## Mortgages, Deeds of Trust, Deeds to Secure Debt

An eligible mortgage, deed of trust, or deed to secure debt must be executed and recorded in accordance with applicable state law. Copies of recorded mortgages are acceptable as eligible collateral, but the recording information must be legible. All mortgage modifications (if applicable) must be properly executed and recorded as well. The mortgage amount and maturity date must equal or exceed the outstanding UPB and stated maturity of the applicable note.

You may report as mortgage collateral any of the following, provided you meet the specific requirements of each:

- **Mortgage Recordation**
  - All mortgages should be recorded in the land record of the city/county where the underlying collateral is located. The Bank gives a special allowance for mortgages originated within the last 12 months that have been sent out for recording but not yet returned from the recorder's office. In such situations, a copy of the executed and unrecorded mortgage should be retained in the loan file.

- **Mortgages With Future Advance Clauses**
  - Mortgages, deeds of trust, or deeds to secure debt that include future advance clauses are acceptable as long as they do not violate any applicable state laws. You can report any mortgage with a UPB amount that exceeds a defined mortgage amount in situations where a future advance clause exists.
- **Mortgages Without an Expiration Date**
  - You can report a mortgage without an expiration date as long as the failure to include an expiration date does not violate applicable state law.
- **Mortgages in the Name of Another Lender**
  - Mortgages closed in the name of another lender are acceptable as long as they are properly assigned to your institution. The assignment should evidence your institution as the beneficiary of the mortgage.
- **Recording of Assignments**
  - Mortgages, deeds of trust, or deeds to secure debt originated in the name of another lender must show evidence they have been properly assigned to your institution. The Bank requires all copies of assignments to be recorded. However, if you are able to provide the original fully executed assignment, evidence of recordation is not required. The same rule applies for assignment of bulk purchases. Copies of bulk purchase assignments will need to show evidence of recordation. Original versions, however, do not require such evidence.
- **Mortgage Electronic Registration System (MERS)**
  - MERS is an electronic registry that tracks the servicing rights and ownership interests of registered mortgage loans through a unique 18-digit number known as the Mortgage Identification Number (MIN). By tracking loan transfers electronically, MERS eliminates the need to have an assignment recorded with the relevant county each time a loan is sold from one institution to another. The Bank will not require evidence of recordation of assignments for mortgages registered through MERS.
- **Mortgages with Borrowers Different from Owners of Mortgaged Property**
  - You may report a loan in instances where the borrower differs from the owner of the mortgaged property if the property owner has executed the mortgage that serves as security for the note. If the property owner has not executed the mortgage, a hypothecation agreement is required.

## Mortgages Executed by a Power of Attorney

Certain jurisdictions require a power of attorney to be recorded, and some also require the power of attorney to be recorded in conjunction with the mortgage. The Bank requires evidence that the power of attorney has been properly recorded in accordance with each applicable state jurisdiction.

### POA Recordation

Within the Bank's footprint (Alabama, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia), Alabama is the only state that does not require recordation of Power of Attorney. Military POAs must be recorded in all states.

## Recording of Modifications

Generally, all mortgage modifications should be recorded. In addition, if a note modification agreement adds substantive new provisions to the mortgage, deed of trust, or deed to secure debt, it is not just a change to the note terms, but also a modification to the mortgage. All such modifications should be recorded in the real property records where the subject property is located.

### Substantive New Provisions

An example of a substantive new provision created by a note modification agreement would be the addition of a future advance clause where none existed in the original mortgage, deed of trust, or deed to secure debt.

# Lien Position Verification

When reporting commercial and multifamily collateral to the Bank, you must verify that each mortgage is in first or second lien position. Similarly, when reporting farmland collateral to the Bank, verification must be performed to ensure the loan is in first lien position. Verification of lien position should be obtained for the mortgage collateral on or before the effective date of reporting.

## Acceptable Documentation of Lien Position

The Bank requires post-closing lien verification documentation for evidence of lien position. Final title insurance policies, attorney opinions, and lien searches are acceptable documentation when sufficient information is obtained to provide a clear picture of lien position and vesting of the collateral.

## Post-Closing Lien Searches

When reporting collateral in the commercial, multifamily, or farmland portfolio, the post-closing lien searches you provide should meet the following requirements:

- The lien search should be conducted on the legal description or physical address of the property, except in those states or counties where loan indexing is available only for the grantor/grantee. The lien search should include vesting information for the property. A search conducted in the name of the borrower is not acceptable as it will not identify liens filed against the property in the name of other individuals or entities. Searches conducted in states with only grantor/grantee indexes must include searches of tax records and clerks of court records in order to identify judgments, tax liens, and other issues that impact the lien position of the property. The post-closing lien search must also identify all open and active liens filed against the property and should not be limited just to real estate transactions.
- Post-closing lien searches should be conducted, at a minimum, through the date that the subject loan was recorded. Recordation information must be clearly visible on the lien search document.
- Post-closing lien searches should be obtained for the mortgage collateral on or before the effective date of reporting.
- Post-closing lien searches not meeting the above requirements will not be accepted as eligible documentation.

### Special Allowances for Newly Originated Mortgage Loans

If you have not received the post-closing lien search from the attorney office or title insurance company prior to the effective date of reporting the loan, the Bank will accept preliminary lien searches up to 12 months after the date of origination. However, if the preliminary lien search shows the existence of a prior lien(s) that would put the subject mortgage in an ineligible lien position, you will need to provide documents listed within either one of the following two paragraphs to evidence satisfaction of the prior lien(s):

1. A final, executed settlement statement showing the payoff to the prior lien holder accompanied by a payoff letter dated within 30 calendar days of the settlement date that can be reconciled to the payoff amount indicated on the final, executed settlement statement, and either of the following additional supporting documents:
    a. A wire transmittal that reconciles to the payoff amount indicated on the final, executed settlement statement
    b. A copy of a check that reconciles to the payoff amount indicated on the final, executed settlement statement
2. A final, executed settlement statement showing the payoff to the prior lien holder accompanied by any *one* of the following:
    a. A recorded copy of the Release/Satisfaction, which may have been recorded after the effective date of reporting (when the final, executed settlement statement evidences that the actual payoff occurred *on or prior to* the effective date of reporting)

b. An unrecorded copy of the Release/Satisfaction, which may have been executed after the effective date of reporting (when the final, executed settlement statement evidences that the actual payoff occurred *on or prior to* the effective date of reporting)

c. A paid-in-full letter from the prior lien holder acknowledging satisfaction of the debt (when the final, executed settlement statement evidences that the actual payoff occurred *on or prior* to the effective date of reporting)

### Documenting Satisfaction of Prior Lien for Post-Closing Lien Searches

Because of error or timing, a post-closing lien verification document may indicate that a mortgage is in second or third position when in reality it is not. This inaccurate lien position can be cured if you can provide proof that the prior lien(s) has been satisfied/cancelled. You may do so by submitting a satisfaction or cancellation *recorded on or before* the effective date of reporting, or an updated lien search *performed on or before* the effective date of reporting.

Settlement statements and copies of cancelled checks cannot be used as proof of satisfaction if the loan origination date was greater than 12 months from the effective date of reporting. If acceptable post-closing verification of the required lien position does not exist on the effective date of reporting, the loan should not be reported as eligible collateral until this document can be obtained.

## Bring-Down Lien Searches

A bring-down (also called *date-down*) lien search is used in conjunction with a preliminary lien search. The bring-down search starts the day after the “searched through” date of the preliminary lien search and extends, at a minimum, through the recording date for the loan. It is used to identify any additional, or intervening, filings against the property during the gap period between the underwriting of the loan and the recording of the mortgage.

You must provide both the preliminary lien search and the bring-down lien search in order to meet the Bank’s lien verification requirements. However, please be aware that there may be liens noted on the preliminary and bring-down searches that may put the subject mortgage in an ineligible lien position when the reports are read together. The Bank will accept either a satisfaction or cancellation *recorded on or before* the effective date of reporting, or an updated lien search *performed on or before* the effective date of reporting as proof that the prior lien(s) has been satisfied/cancelled.

## Commercial and Multifamily Second Mortgage Loan Requirements

When reporting commercial and multifamily collateral to the Bank, you must verify that each mortgage is in first or second lien position. In order for a second mortgage loan to be eligible within the commercial and multifamily portfolios, the following criteria must be met:

- The first and second lien holder must be the same entity
- The borrower on the first and the second loans must be exactly the same
- The collateral on the first and the second loans must be exactly the same

- The first and second loans may not exceed 85 percent LTV when the UPBs of the two loans are combined
- In order for the second lien loan to be eligible, the first lien loan must also be eligible (the first position loan, for example, cannot be a line of credit)
- The second mortgage loan must meet all other eligibility criteria for loans pledged in the commercial portfolio. (For example, the second loan cannot be a line of credit and must have post-closing lien verification.)
- You must execute a short addendum to your Advances and Security Agreement to place a Bank lien on the second mortgage loans before they can be reported

## Non-Mortgage-Related Liens

Non-mortgage liens such as tax liens or mechanic's liens that are in advance of the lien your institution holds will impact the eligibility of loans required to be in first lien position. These non-mortgage liens may also impact the eligibility of second lien loans if other prior liens exist.

## PACE Loans

Loans secured by properties that are subject to PACE liens with priority over your institution's lien are not eligible for reporting. Property Assessed Clean Energy (PACE) is a government initiative that allows property owners to finance energy-efficient and renewable energy projects for their homes as well as for multifamily and commercial buildings. Property owners repay this financing through special tax assessments for up to 20 years. If the property is sold during the repayment period, the repayment obligation is transferred automatically to the next property owner via the special tax assessment unless the existing property owner elects to pay off the PACE financing in conjunction with the sale of the property.

PACE financing that is structured as an assessment on the property (rather than a loan) would have the same lien priority as property taxes, thereby creating a superior lien interest over existing mortgage liens. Lenders may not receive notification of the liens from the originators of the PACE financing.

### PACE Loan Examples

Examples of projects that may be financed with PACE loans include insulation, weather sealing, new windows, heating and cooling systems, and solar panel installation.

## Private Transfer Fee Covenants

The Bank has restrictions on the eligibility of mortgage loans that are encumbered by a private transfer fee covenant. Mortgages containing private transfer fee covenants created before February 8, 2011, are considered eligible collateral if the loans meets all other eligibility criteria. Mortgages containing private transfer fee covenants that were created on or after February 8, 2011, are acceptable as collateral only in those cases where the private transfer fee is paid to an association for a purpose that directly benefits the real property encumbered by the covenant.

## Past Due Loans

You may not report loans that are greater than 30 days contractually late. Full payment must be received within 30 days of the due date for the loan to be considered eligible. If any portion of the payment is in arrears, then the loan is considered past due. The Bank's definition of past due loans supersedes your regulator's definition when determining eligibility.

### Additional Guidelines

The following additional guidelines address special past due cases you may encounter when deciding whether your mortgage collateral is eligible for reporting.

**Payments Systems with Grace Periods** – If you employ a payment system that allows for a grace period, mortgage loans may not show up as delinquent until the following month. These loans may be included as eligible collateral, as long as the loans do not exceed 30 days late from the contractually specified due date.

**Loans with Workout Arrangements or Payment Plans –** A loan subject to a workout arrangement or a bankruptcy court-ordered payment plan may be eligible as long as the loan is not classified as substandard, doubtful, or loss, and no portion of the payment is more than 30 days past due.

**Past Due Loans that Become Current** – A loan that was previously ineligible because it was past due can be reported as eligible collateral once it becomes current.

## Matured Loans

Loans that matured on or before the effective date of reporting are not eligible.

## Classified Loans

Loans classified internally or externally (by a regulatory entity) as substandard, doubtful, or loss are ineligible. However, you may report as collateral any "special mention" or internally classified "watchlist" loans.

## Employee, Officer, and Director Loans

If an employee, officer, director, attorney, or agent of your institution or of the Bank has any personal liability for a loan, the loan is ineligible as collateral and should not be reported. An agent is a non-employee that has been authorized to conduct business on behalf of your institution or the Bank.

### Affiliated Shareholder Entities

Loans to employees, officers, and directors of your affiliates such as subsidiaries, sister banks, and holding companies are eligible, except in the case where the affiliate has entered into an affiliate joinder agreement by and among the Bank, the shareholder, and the affiliate. In this case, the affiliate's loans are subject to the same collateral eligibility requirements for loans to employees, officers, directors, attorneys, or agents required for your institution.

### Partnerships, LLCs, and Syndicates

If an employee, officer, or director of your institution or of the Bank is personally liable for any portion of the debt, the loan is ineligible for reporting. Personal liability includes employee, officer, or director personal guarantees for loans to non-natural borrowers such as limited liability companies (LLCs) and partnerships.

### Family Members

Loans to family members of employees, officers, and directors are eligible collateral provided that the employee, officer, or director is not personally liable.

### FHLBank Atlanta Employees

Loans made to Bank employees are not eligible collateral.

## Loan Participations

Loan participations are eligible in the commercial, multifamily, and farmland portfolios if they meet certain requirements. A participation loan secured by multifamily, commercial real estate, or farmland collateral is eligible only if your institution is the lead lender, owns at least 51 percent of the total loan, and has legal control of the original documents, including the participation certificate. When reporting the UPB for the eligible participation, you can only report the portion owned by your institution.

Minority participation interests are not eligible for reporting.

**Minority Participation Interests**

For example, your affiliate owns 51 percent of the loan, your institution owns 49 percent of the loan, the loan is not eligible for reporting with your institution's minority portion, but the affiliate portion can be reported.

### Participations from Affiliates of Your Institution

The Bank accepts participations from affiliates of your institution as long as the affiliate has executed a joinder agreement. Your institution must be the lead lender, have at least 51 percent ownership of the total loan, and have legal control of the documents. The documents may be held at a servicer or custodian if the affiliate has control over the access to the documents. See the Requirements for Use of Collateral of an Affiliate section of the Member Products and Services Guide for additional information.

### Calculating LTV on Participated Loans

You should calculate the LTV based on the total of the loan's UPB divided by the most recent value of the underlying collateral. For purpose of the LTV calculation, the total of the loan's UPB should include your institution's portion plus any other participant's portion of the loan divided by the most recent value of the eligible collateral. If the LTV calculation exceeds the 85 percent requirement based on this formula, the loan is not eligible for reporting.

### Syndicated Loans

Syndicated loans are not eligible for reporting in any portfolio.

## LTV Calculation

You should use the most recent valuation available on or before the effective date of reporting for LTV calculation. If you have not obtained a post origination valuation, use the valuation from loan origination.

For purchase money mortgages within 12 months of closing, the lower of the purchase price or the appraised value at the time of origination should be used for LTV calculation. For purchase money mortgages seasoned longer than 12 months, the most recent valuation on or before the effective date of reporting should be used for LTV calculation. If there is no recent valuation in the file, the LTV should be calculated on the lower of the purchase price or appraised value at origination.

Acceptable valuations include:

- Certified/professional appraisals
- Limited/AVM (automated valuation model) type appraisals
- Tax valuations and assessments
- Internal valuations

## LTV Requirements

The LTV requirements for commercial, multifamily, and farmland collateral include:

| Collateral Category | Maximum LTV | LTV Requirement |
|---|---|---|
| **Commercial** | 85% | If second mortgages are reported, the total LTV for the first and second mortgage combined cannot exceed 85% |
| **Commercial – Places of Worship** | 75% | If second mortgages are reported, the total LTV for the first and second mortgage combined cannot exceed 75% |
| **Multifamily** | 85% | If second mortgages are reported, the total LTV for the first and second mortgage combined cannot exceed 85% |
| **Farmland** | 85% | The LTV cannot exceed 85%. No value is given to agricultural products. |

## Loans Secured by Multiple Forms of Collateral

The LTV should be calculated using the total value of only the *eligible* collateral you report to the Bank. The value of ineligible collateral, should be excluded from the calculation.

# Property Appraisals

When reporting collateral of any type, you must retain sufficient documentation in the loan file to support the property type and value. If you obtain an updated valuation after origination for any purpose, you must retain the most recent valuation, as well as the valuation at origination, in the file. An updated valuation must be dated on or before the effective date of reporting.

## Sufficient Appraisal Documentation

Appraisal documentation can include:

- Certified appraisals
- Limited/AVM (automated valuation model) type appraisals
- Tax valuations/assessments
- Internal valuations, which may be accompanied by tax records and/or comparable sales

Regardless of the type of documentation used, the Bank must be able to verify the property type.

The Bank will consider tax assessments as valuation documentation for loans reported as collateral only when you rely on the tax assessments as a valuation source (at either origination or post-origination). The following additional guidelines apply:

- If you rely on a post-origination tax assessment as a valuation document for an individual loan, the Bank will treat the tax assessment as an updated valuation document for the purpose of calculating the LTV
- If there is no indication that you relied on the tax assessment for an updated valuation on an individual loan, the Bank will not use the tax assessment as an updated valuation document for the purpose of calculating the current LTV. Instead, the Bank will use the most recent valuation document, other than the tax assessment, to determine the current LTV
- If the only valuation document you provide for a loan is a tax assessment, the Bank will use the tax assessment as a valid valuation document to determine the current LTV

## Appraisals Subject to Completion

You may rely upon appraisals subject to completion if both of the following criteria are met:

1. The property is completed as described in the appraisal
2. You provide evidence of completion

Evidence of completion can be indicated by either a certificate of occupancy, certificate of completion, recertification of value, or a loan officer's certification.

### Appraisals Subject to Other Conditions

In addition to appraised values that are subject to completion, appraisals may include values subject to other conditions. Some examples include value subject to stabilization and value subject to an easement or other legal agreement. For the purposes of loan eligibility when considering the LTV calculation for loans with appraisals subject to other conditions, the property must have met the specified other conditions in order for the "Subject to" value to be utilized. If the property has not met the other conditions specified by the appraisal for the "Subject to" value, then the as-is value should be utilized for the purposes of the LTV calculation.

## Restrictions on Acreage

When reporting loans in the commercial and multifamily portfolios, the acreage of the eligible improvements should be reasonable with respect to the size of the property and be typical for the area. Please note that excess land identified in the valuation cannot be used in the LTV calculation. Loans reported in the farmland portfolio do not have any acreage limitations.

## Appraisals without Separate Value of Land and Improvements

For loans reported in the commercial and multifamily portfolios, if the appraiser notes that a portion of the land is excess land for future development and does not give a value for the separate land, then you must provide the separate values of the land and improvements to determine if the loan meets the Bank's LTV requirements.

For loans reported in the farmland portfolio, if the appraiser notes that structures are present on the land and does not give a separate value for the structures, then you must provide the separate values of the land and structures to determine if the loan meets the Bank's LTV requirements.

# Flood Insurance

Loans originated after September 23, 1994, with improvements located within a Special Flood Hazard area, as designated by the Federal Emergency Management Agency (FEMA), must meet the Bank's minimum flood insurance coverage requirements. A corresponding Standard Flood Hazard Determination Form must be available for review for all loans to determine if the improvements are located in a flood hazard area.

If a property is located in a special flood hazard area, the flood insurance must have been in force on the effective date of reporting.

## Minimum Coverage for Commercial and Multifamily Loans

The minimum flood insurance coverage for commercial and multifamily loans is the lesser of:

- The current UPB
- The replacement value of improvements
- $500,000, which is the maximum coverage permitted per structure

## Additional Flood Insurance Guidelines

Master Policy Flood insurance obtained by the building association, builder, or the developer is permissible as long as the improvement coverage is the lesser of:

- The replacement cost of the building(s)
- The total number of units in the building(s) times $500,000
- The current UPB of the loan

## Minimum Coverage for Farmland Loans with Structures

The minimum flood insurance coverage for farmland loans with structures is based on the type of structure present on the subject property.

If the structure is non-residential, then the minimum flood insurance coverage is the lesser of:

- The current UPB
- The replacement value of improvements
- $500,000, which is the maximum coverage permitted per structure

If the structure is residential, then the minimum flood insurance coverage is the lesser of:

- The current UPB
- The replacement value of improvements
- $250,000

## Cross-Collateralization

The Bank must have a lien on all loans that are cross-collateralized in order for the reported loan to be eligible. If a reported loan is crossed-collateralized with a loan not pledged to the Bank under the Advances and Security Agreement, then you must sign and deliver a Pledge Supplement agreement. The Pledge Supplement gives the Bank a lien on the unpledged loan unless you have pledged that collateral to another entity such as The Federal Reserve Bank. The Pledge Supplement also acts to give the Bank a lien on any other loans that are crossed with loans not covered by the blanket lien under the Advances and Security Agreement. It is important to note that loans covered by the Pledge Supplement are not considered eligible loans and do not receive any collateral value. They should not be reported as eligible collateral.

The loan must specifically reference cross-collateralization with another loan or collateral in the note, mortgage, or other related loan documents. If the cross-collateralization language in the note, mortgage, or other related loan documents is not specific in nature, then it will not require further review for eligibility purposes.

### Generic Cross-collateralization Language

Generic cross-collateralizing language (also known as dragnet language) does not constitute cross-collateralization for the purpose of collateral eligibility. This type of language may also be in the form of a cross default clause. This type of clause only indicates that the loan can be called if the borrower/entity defaults on another loan or relationship.

A pledged loan with collateral that also has a second lien attached, with both appearing on the title, would not constitute a cross-collateralized loan.

## LTV Tests for Cross-Collateralized Loans

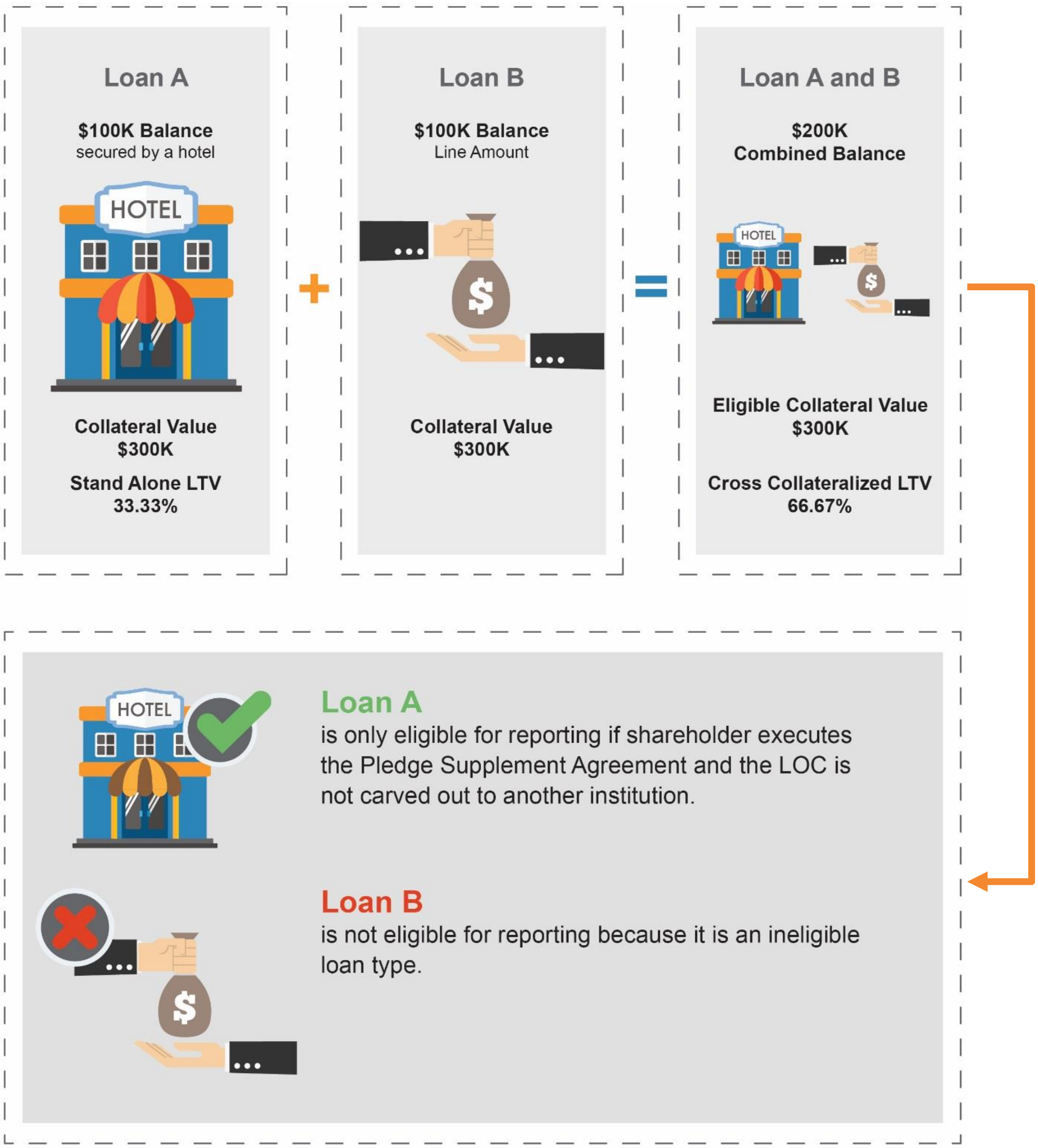
### Cross-collateralization Loans

There are two LTV tests that are applied to cross-collateralized loans:

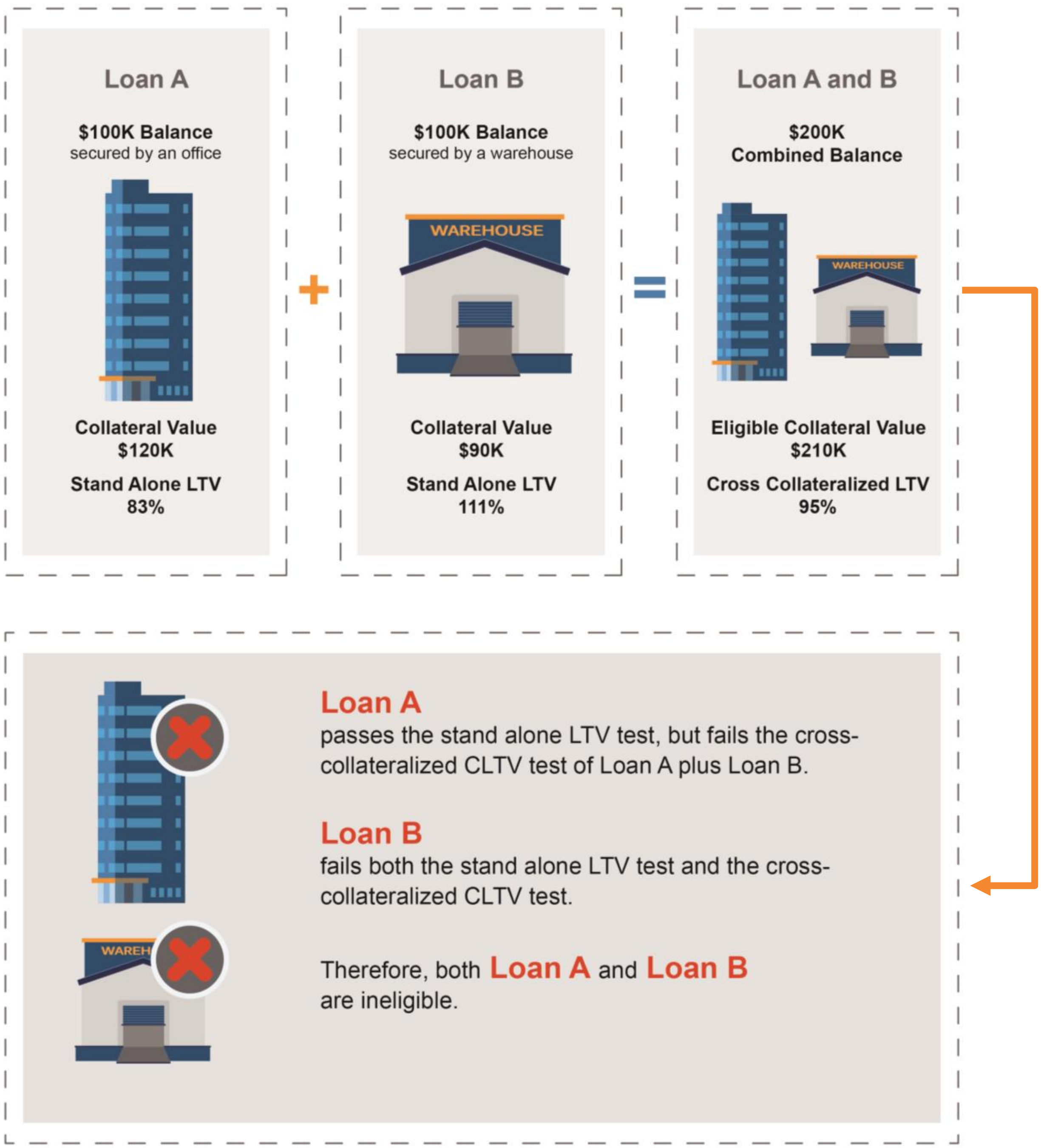
1. The first LTV test is specific to the subject loan. The subject loan must meet the Bank's LTV criteria for that portfolio (residential ≤ 130% if the loan originated with an LTV ≤ 100%, HELOC ≤ 100%, and commercial/multifamily/farmland ≤ 85%). If the subject loan passes the first test, then the second test is applied.
2. The second LTV test combines the subject loan with the crossed loans. When the subject loan is cross-collateralized with one or more loans, the combined LTV of the subject and the crossed loans must not exceed the Bank's LTV criteria for the portfolio in which the *subject loan* is reported.

If the subject loan does not pass both LTV tests, it will be ineligible for reporting. Examples illustrating the eligible and ineligible status of three cross-collateralized loan scenarios are provided below and on the following pages.

## Cross-Collateralization Scenario 1



## Cross-Collateralization Scenario 2



## Cross-Collateralization Scenario 3

### Loan A

**$200K Balance**
secured by an office

**Collateral Value**
**$240K**

**Stand Alone LTV**
**82.33%**

+

### Loan B

**$100K Balance**
secured by a SFR

**Collateral Value**
**$75K**
and an extra parcel of **ineligible vacant land** with a collateral value of $50K

**Stand Alone LTV**
**133.33%**

=

### Loan A and B

**$300K**
**Combined Balance**

**Eligible Collateral Value**
**$315K**

**Cross Collateralized LTV**
**95.24%**

**Loan A**
passes the stand alone LTV test, but fails the cross-collateralized CLTV test of Loan A plus Loan B, when the value of the ineligible vacant land is excluded.

**Loan B**
fails the stand alone LTV test and the cross-collateralized CLTV test, when the value of the ineligible vacant land is excluded.

Therefore, both **Loan A** and **Loan B** are ineligible.

## Guaranteed Loans

The Bank accepts USDA guaranteed loans as eligible collateral in the residential, commercial, multifamily, and farmland portfolios if the loan otherwise meets all requirements for the portfolio absent of the guarantee. No value will be provided for the guarantee and the loan will need to qualify against the Bank's requirements on its own merit. Loans guaranteed by any other entity that does not give the Bank control over the collateral in the event of default (e.g. SBA, etc.) are not eligible collateral. However, non-guaranteed first mortgage loans under the SBA 504 program can be eligible for reporting.

## Ground Leases and Leasehold Interests

In order for a loan secured by a property subject to a ground lease or leasehold interest to be eligible collateral, the lease must be subordinate to the mortgage and the term of the lease must equal or exceed the note maturity. The exception to this requirement is long-term leaseholds in superior lien position that are held by power and utility companies or by the U.S. Army Corp of Engineers. Short-term ground leases in superior lien position (also held by power and utility companies or by the U.S. Army Corp of Engineers) that do not exceed the term of the subject mortgage can be eligible if the lease contains an automatic renewal clause.

# SECTION FOUR

## REPORTING COLLATERAL TO THE BANK

This section of the Loan Collateral Resource Guide provides you with additional information regarding the collateral reporting process. The vast majority of FHLBank Atlanta shareholders report loan collateral via a Qualifying Collateral Report (QCR). Certain shareholders with higher credit risk ratings, non-insured depository institutions, those in loan file delivery, or those with $1 billion or more in total exposure have special reporting requirements. For more information on these special reporting requirements, please refer to the Credit and Collateral Policy section of the Member Products and Services Guide.


If you have additional questions about reporting collateral, please contact the Collateral Relationship Specialist assigned to your institution.

**REMEMBER:** If you click on hyperlinked text and then want to return to the previous page, press the **ALT and Left Arrow** keys on your keyboard to navigate back.

# Reporting Collateral to the Bank

RES HELOC MF CRE FARM

## Topics in this Section

To navigate directly to any one of the topics listed below, click on the topic text.


Qualifying Collateral Report (QCR) & Reporting Frequency

Reporting Frequency

Market-based Collateral Valuation

Residential Market Values

HELOC/HEL Market Values

Commercial Real Estate, Multifamily, & Farmland Market Values

Reporting Levels Valuation  Comparison – Commercial, Multifamily, and Farmland Portfolios

Updating of Market Values (Residential and HELOC/HEL)

Updating of Market Values (Commercial, Multifamily, and Farmland)

Bank Secrecy Act and Anti-Money Laundering Requirements

Instructions for Completing QCRs

Page One Instructions

Page Two Instructions

Page Three Instructions

Sample QCRs & Additional Instructions

Residential QCR (Sample): Page 1

Residential QCR (Sample): Page 2

HELOC/HEL QCR, Page 1

HELOC/HEL QCR, page 2

Commercial Real Estate QCR, Page 1

Commercial Real Estate QCR, Page 2

Multifamily QCR, Page 1

Multifamily QCR, Page 2

Farmland QCR, Page 1

Farmland QCR, Page 2


**Special Note about the Effective Date of Reporting**

Please note that the phrase “effective date of reporting” used in the Guide is equivalent to the “Balances as of date” on the Qualifying Collateral Report (QCR) and the Collateral Verification Review (CVR) “as of” date.

## Qualifying Collateral Report (QCR) & Reporting Frequency

FHLBAccess®, available on the homepage of the Bank's website, offers you the capability to report qualifying collateral to the Bank via QCR filings and file uploads.

The Collateral Transactions module of FHLBAccess allows authorized users to:

- Add, update, and submit QCRs
- Withdraw or delete QCRs
- Pledge cash and securities
- 

Please note that access to the portal is available only if transactional authority has been granted to you by your institution's Remote Administrator. If you require additional information on your institution's Remote Administrator, please contact the Collateral Relationship Specialist assigned to your institution.

### Reporting Frequency

Each collateral type has a unique QCR form. QCRs are typically required quarterly for all portfolios except HELOC/HEL collateral, which is required monthly.

| QCR Portfolio | Reporting Frequency |
|---|---|
| **Residential** | Quarterly |
| **HELOCs/HELs** | Monthly |
| **Commercial real estate** | Quarterly |
| **Multifamily** | Quarterly |
| **Farmland** | Quarterly |

QCRs may be updated at any time, but quarter- and month-end QCRs are due no later than 30 days after the end of the month or quarter.

Copies of QCRs for all five loan portfolios can be accessed on the Collateral Resources page of the Bank's website.

## Market-based Collateral Valuation

Market-based collateral valuation applies to all five loan portfolios:

- Residential
- HELOC/HEL
- Commercial real estate
- Multifamily
- Farmland

The Bank uses a three-part process for collateral valuation:

- The first part (market value percentage) measures the current market value of collateral
- The second part (lendable collateral value percentage) calculates the discount to cover the risk of:
  - Estimated price volatility
  - Liquidation or servicing costs
- The third part (extrapolation rate) is derived from your institution's most recent Collateral Verification Review (CVR).

**Measure Current Market Value** → **Apply discount to determine LCV** → **Adjust LCV for extrapolation rate from CVR** → **Final LCV**

### Median Extrapolation Rate

If your institution's loan collateral has not been previously reviewed through a CVR, the Bank will apply the applicable median extrapolation rate to each of your portfolios. Median extrapolation rates can be found in FHLBAccess (navigate to Reports & Forms → Forms → Collateral).

## Residential Market Values

In the residential portfolio, LTV ratio and jumbo classification are the most relevant drivers for market valuation.

The Bank will use CVR data collected within the past four years in the analysis of the market value. (For example, if a shareholder has had two CVRs in the past four years, then both CVRs will be used to determine the portfolio composition.)

### Definition of Jumbo Classification

Jumbo will be determined from the original loan balance based on the Federal Housing Finance Agency (FHFA) general conforming limits for a single 1-4 residential dwelling:

- $548,250 maximum balance for conforming since 2021
- Historical maximum balances prior to 2021

If your institution's loan collateral has not been previously reviewed through a CVR, the Bank will apply a blend of the average market value percentage and lendable collateral value percentage to the overall portfolio.

## HELOC/HEL Market Values

In the HELOC/HEL portfolio, the most relevant drivers of market valuation are:

- HELOC or home equity loan type
- Lien position
- Current combined LTV (CLTV)
- Subprime characteristics

### HELOC/HEL CLTV

All Second Lien HELOC CLTVs should be calculated using the maximum amount of the credit line and the UPB of the first mortgage. All second lien home equity loan CLTVs should be calculated using the combined current UPB of the first and second mortgages.

## Commercial Real Estate, Multifamily, and Farmland Market Values

The Bank offers three levels of reporting in the commercial, multifamily, and farmland portfolio:

- Level 1 – UPB only
- Level 2 – UPB and current loan-to-value (CLTV) ranges
- Level 3 – UPB, CLTV, debt service coverage ratio (DSCR) and remaining maturity

### Commercial, Multifamily, and Farmland CLTV

CLTV is equal to current UPB divided by the most recent valuation.

All second mortgage CLTVs are calculated using the combined UPB of the first and second mortgages divided by the most recent valuation.

### Acceptance of DSCR

The Bank will accept the most recent DSCR based on your institution's calculation. If the only available DSCR is from origination, the Bank will accept the DSCR from origination.

### Remaining Maturity Defined

Remaining maturity is the number of years remaining before the note reaches its maturity date.

You cannot report a combination of levels within a portfolio. All loans must be reported at the same level of reporting in a given portfolio. If reporting the commercial, multifamily, and farmland portfolios, each of these portfolios can be reported at different levels.

### Reporting Commercial, Multifamily, and Farmland Collateral at Different Levels

For example, you can provide all data required for level 3 reporting in the multifamily portfolio, but can only provide data for level 2 reporting in the commercial or farmland portfolios. You can report the commercial or farmland portfolios at level 2 reporting and report the multifamily portfolio at level 3 reporting.

The Bank correlates discounts and market values to the level of reporting. The more data you report at each level, the more the uncertainty of the data decreases. Market values at each level are based on the data provided.

## Reporting Levels Valuation Comparison – Commercial, Multifamily, and Farmland Portfolio

Stated LCV% increases for Commercial are based on Standard-CRE loans.

**Level 2 to 3:**
UPB, CLTV, DSCR, and remaining maturity

Commercial: LCV% increases additional 2%

Multifamily: LCV% increases additional 1%

Farmland: LCV% increases additional 1%

**Level 1 to 2:**
UPB and CLTV

Commercial: LCV % increases at least 7%

Multifamily: LCV% increases at least 1%

Farmland: LCV% increase at least 3.5%

**Level 1:**
Report UPB only

CLTV assumed in range of 81-85%

**UPB Only:** Conservative assumptions are applied to assume that all loans being reported have CLTVs within the range of 81-85%

**Commercial Portfolio:** LCV percentage increases by 7% and the market value assigned also increases if any of the loans being reported have CLTVs ≤80%; the only additional data required is CLTV.

**Multifamily Portfolio:** LCV percentage increases by 1% and the market value assigned also increases if any of the loans being reported have CLTVs ≤80%; the only additional data required is CLTV.

**Farmland Portfolio:** LCV percentage increases by 3.5% and the market value assigned also increases if any of the loans being reported have CLTVs ≤80%; the only additional data required is CLTV.

**Commercial Portfolio:** LCV percentage increases by an additional 2% and the market value is a function of credit characteristics reported (CLTV, DSCR, and YTM).

**Multifamily Portfolio:** LCV percentage increases by an additional 1% and the market value is a function of credit characteristics reported (CLTV, DSCR, and YTM).

**Farmland Portfolio:** LCV percentage increases by an additional 1% and the market value is a function of credit characteristics reported (CLTV, DSCR, YTM).

## Updating of Market Values (Residential and HELOC/HEL)

Market values for the residential and HELOC/HEL portfolios are posted monthly on FHLBAccess on the last business day of the month and are effective on the first day of the following month.

- Market values for residential collateral reported on your QCR update at the beginning of each month when market values are entered and also when a new QCR is entered
- Market values for HELOC collateral reported on your QCR update only when a new QCR is entered

## Updating of Market Values (Commercial, Multifamily, and Farmland)

Market values for the commercial, multifamily, and farmland portfolios are posted quarterly on FHLBAccess on the last business day of the quarter and are effective on the first day of the following quarter.

- Market values for commercial, multifamily, and farmland collateral reported on your QCR update only when a new QCR is entered
- The calculation of LCV is based on one of three reporting levels selected

More information about the market-based collateral valuation process can be found in the Member Products and Services Guide.

Specific market values by asset brand for all five portfolios can be found on FHLBAccess.

### Navigate in FHLBAccess:

REPORTS & FORMS → FORMS → COLLATERAL

## How to Determine Market Value before Submitting a QCR

- Complete all pages of the QCR
- After completing all pages, click **Submit** once
- Page one will display with the updated market value
- Click **Submit** again to certify the information entered and also transmit QCR to the Bank

1. **Complete all pages of the QCR**
2. **Click "Submit" Once**
3. **Market Value displayed on page 1**
4. **Click "Submit" Again**

## Bank Secrecy Act and Anti-Money Laundering Requirements

In 2014, new regulations made the FHLBanks subject to the Bank Secrecy Act, which impacted both the Bank and its shareholders. The Bank has established an Anti-Money Laundering (AML) program and files suspicious activity reports (SARs) with the Financial Crimes Enforcement Network (FinCEN) any time it identifies possible fraud or other suspicious activity relating to mortgage loan collateral, Affordable Housing Program–assisted transactions, correspondent banking services, or other Bank products and services. The Bank is prohibited from disclosing the existence of a filed SAR to shareholders or to any external parties.

The Bank has updated its credit and collateral policy in connection with the AML program, as follows:

- Each shareholder must maintain effective AML controls that prevent the Bank's products and services from being used to facilitate money laundering, terrorist financing, fraud, or other illicit activity
- No shareholder may use, or permit the use of, its accounts maintained at the Bank as "payable-through accounts" (also called "pass through accounts" or "pass-by accounts"), which U.S. financial institutions offer as banking products to foreign financial firms to provide their customers with access to the U.S. financial system
- The correspondent banking policies appendix in the Member Products and Services Guide was amended to clarify that it (including the new provisions described above) applies to all shareholders and borrowers

## Instructions for Completing QCRs

Each portfolio requires a separate QCR to be completed and filed with the Bank. The form is three pages long. All information reported on the QCR should be based on the balances as of the date of reporting. Here are some general guidelines for completing each page of the QCR for all collateral types.

### Page One Instructions

- **Line i** represents all loans you are reporting before ineligible loans are removed
- Line items in **Section II** should be used to subtract ineligible loans
- **Line j** (**Line i** for HELOCs) in Section II should be used to remove any ineligible loans not specifically described in the preceding lines
- For commercial collateral, **Line i** should be used to remove *ineligible* special purpose properties that are listed on the Ineligible Special Purpose Properties chart (for example, properties with unresolved environmental issues). Note: The special purpose loans reported on page two of the commercial collateral QCR are the *eligible* special purpose loans, which receive half of the LCV given to standard commercial loans.
- Extrapolation rates are from your most recent CVR and remain in place until the next review is completed and approved. If a reported portfolio has not yet undergone a CVR, the Bank applies the median extrapolation rate. Median extrapolation rates are updated annually and are based on the median CVR extrapolation rates for each of the five portfolios for the prior year. The current median extrapolation rates can be found at the following location in FHLBAccess.
- Market value and LCV percentages are calculated and assigned for each loan type listed on page two of the QCR. The overall **Market Value %** and the overall **Collateral Value %** (Collateral Value % is equal to the LCV percentage) on page one represent the weighted averages for all loan types.

### Navigate in FHLBAccess:

REPORTS & FORMS → FORMS → COLLATERAL

#### Reporting the Unpaid Principal Balance

The accurate unpaid principal balance for each loan should be reported on the effective date of reporting.  The UPB for each loan should not include items such as accrued interest, fees, and accounting charges.

## Page Two Instructions

- All percentages on page two should be calculated as a percentage of **Line III, Net Eligible Loans** on page one

### Calculating Loan Percentages

For example, on the Residential QCR, the percentage entered on page two for **Standard – Not Subprime** would be calculated as the sum of the UPB of all eligible **Standard – Not Subprime** loans divided by the UPB **on Line iii, Net Eligible 1-4 Family First Mortgage Loans** on page one.

- The percentages on page two should be based on the UPB, not on the number of loans in each category
- FHLBAccess will not accept any QCR if:
    1. The total of the percentages on page two does not equal 100 percent, or
    2. Page two has not been completed

## Page Three Instructions

The data collected on page three of the QCR is utilized to determine the Bank's exposure to various types of loans and is also used for the collection and reporting of other loan data. The Bank may at times make revisions to the information collected on page three of the QCR based on current market conditions. Example categories of loan data that may be collected on page three of the QCR include:

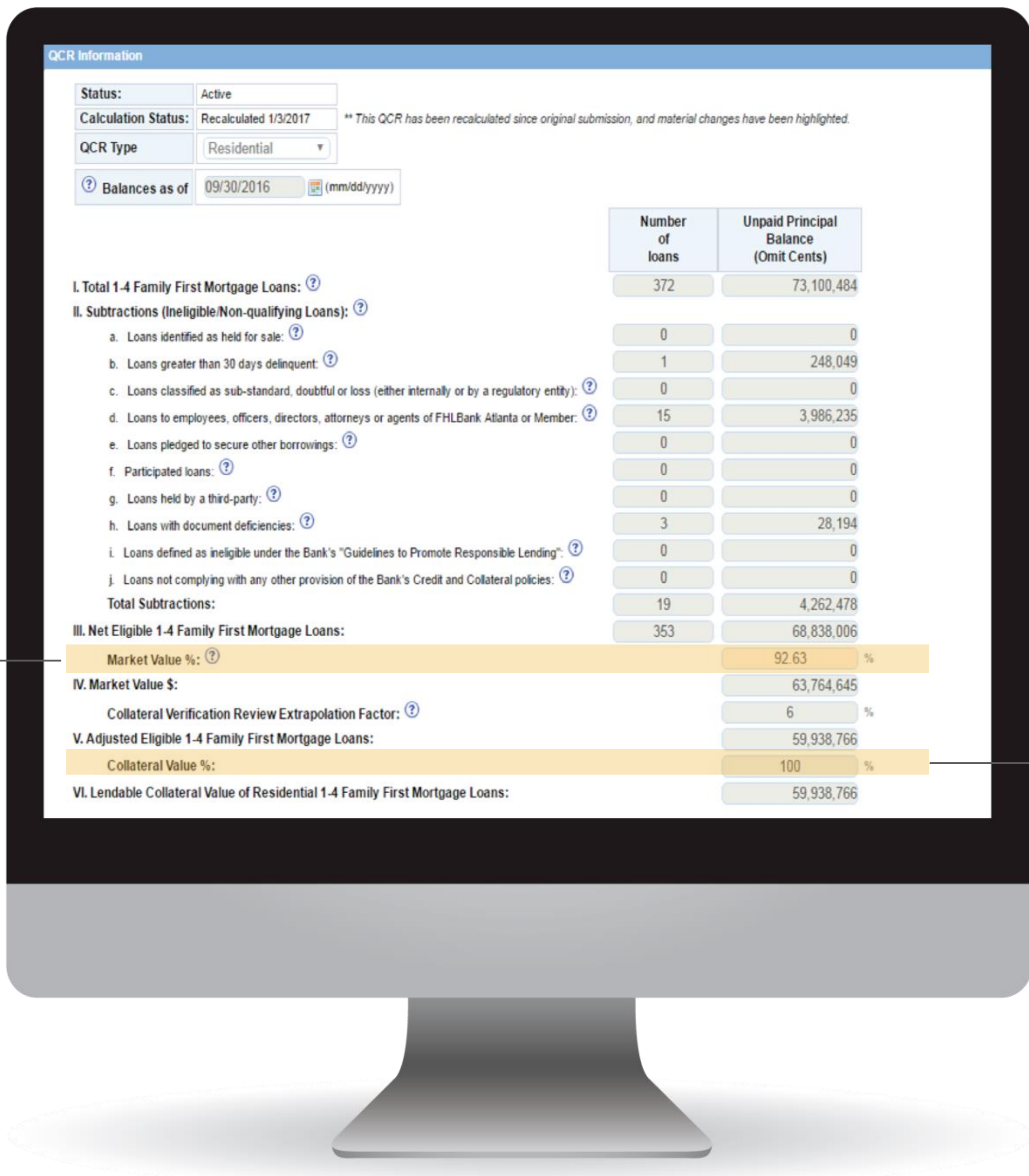
- Loans Indexed to LIBOR
- Loans under Forbearance or Payment Deferral Arrangements due to the COVID-19 Pandemic
- Loans under Forbearance or Payment Deferral Arrangements due to a Natural Disaster
- Mitigated Environmental Risk Loans

The following pages detail examples and instructions for pages one and two of the QCR. To view examples and instructions for page three of the QCR, please refer to the QCR example templates in the Resource Center of the Bank's public website.

## Sample QCRs & Additional Instructions

Following are sample QCRs for all collateral categories, as well as additional instructions for completing each.

### Residential QCR (Sample): Page One




QCR Information

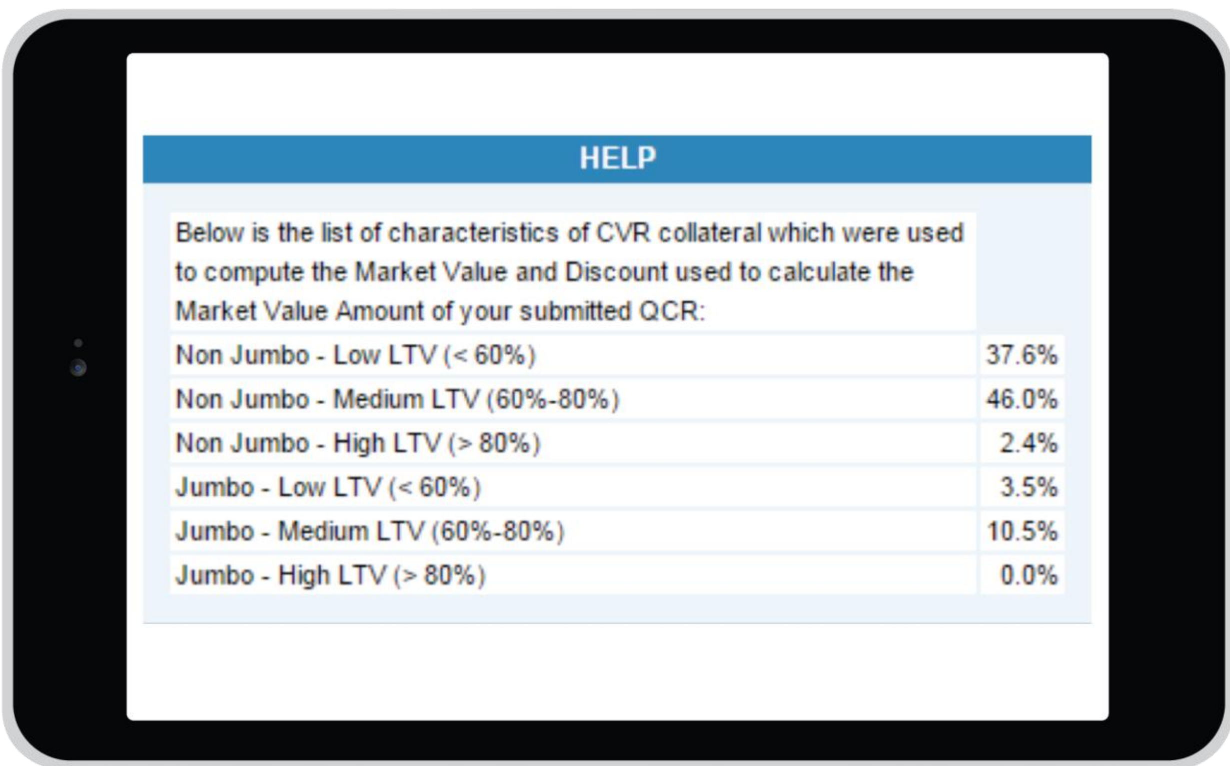
| | |
|---|---|
| Status: | Active |
| Calculation Status: | Recalculated 1/3/2017 |
| QCR Type | Residential |
| Balances as of | 09/30/2016 (mm/dd/yyyy) |

** This QCR has been recalculated since original submission, and material changes have been highlighted.

| | Number of loans | Unpaid Principal Balance (Omit Cents) | |
|---|---|---|---|
| I. Total 1-4 Family First Mortgage Loans: | 372 | 73,100,484 | |
| II. Subtractions (Ineligible/Non-qualifying Loans): | | | |
| a. Loans identified as held for sale: | 0 | 0 | |
| b. Loans greater than 30 days delinquent: | 1 | 248,049 | |
| c. Loans classified as sub-standard, doubtful or loss (either internally or by a regulatory entity): | 0 | 0 | |
| d. Loans to employees, officers, directors, attorneys or agents of FHLBank Atlanta or Member: | 15 | 3,986,235 | |
| e. Loans pledged to secure other borrowings: | 0 | 0 | |
| f. Participated loans: | 0 | 0 | |
| g. Loans held by a third-party: | 0 | 0 | |
| h. Loans with document deficiencies: | 3 | 28,194 | |
| i. Loans defined as ineligible under the Bank's "Guidelines to Promote Responsible Lending": | 0 | 0 | |
| j. Loans not complying with any other provision of the Bank's Credit and Collateral policies: | 0 | 0 | |
| Total Subtractions: | 19 | 4,262,478 | |
| III. Net Eligible 1-4 Family First Mortgage Loans: | 353 | 68,838,006 | |
| Market Value %: | | 92.63 | % |
| IV. Market Value $: | | 63,764,645 | |
| Collateral Verification Review Extrapolation Factor: | | 6 | % |
| V. Adjusted Eligible 1-4 Family First Mortgage Loans: | | 59,938,766 | |
| Collateral Value %: | | 100 | % |
| VI. Lendable Collateral Value of Residential 1-4 Family First Mortgage Loans: | | 59,938,766 | |

## Additional Instructions – Page One

- **Market Value %** is a blend of the market value and the LCV percentage applied to the UPB
- **Collateral Value %** is included in the blended market value as indicated above. The system displays this value at 100%.
- The **Help** button by the **Market Value %** displays your portfolio composition, which is used to assign market values and discounts. Portfolio composition is based on data collected from your institution's CVR within the last four years. If your institution's loan collateral has not been previously reviewed through a CVR, the CVR was more than four years ago, or if the CVR sample was small, the Bank will apply average pricing to the overall portfolio.

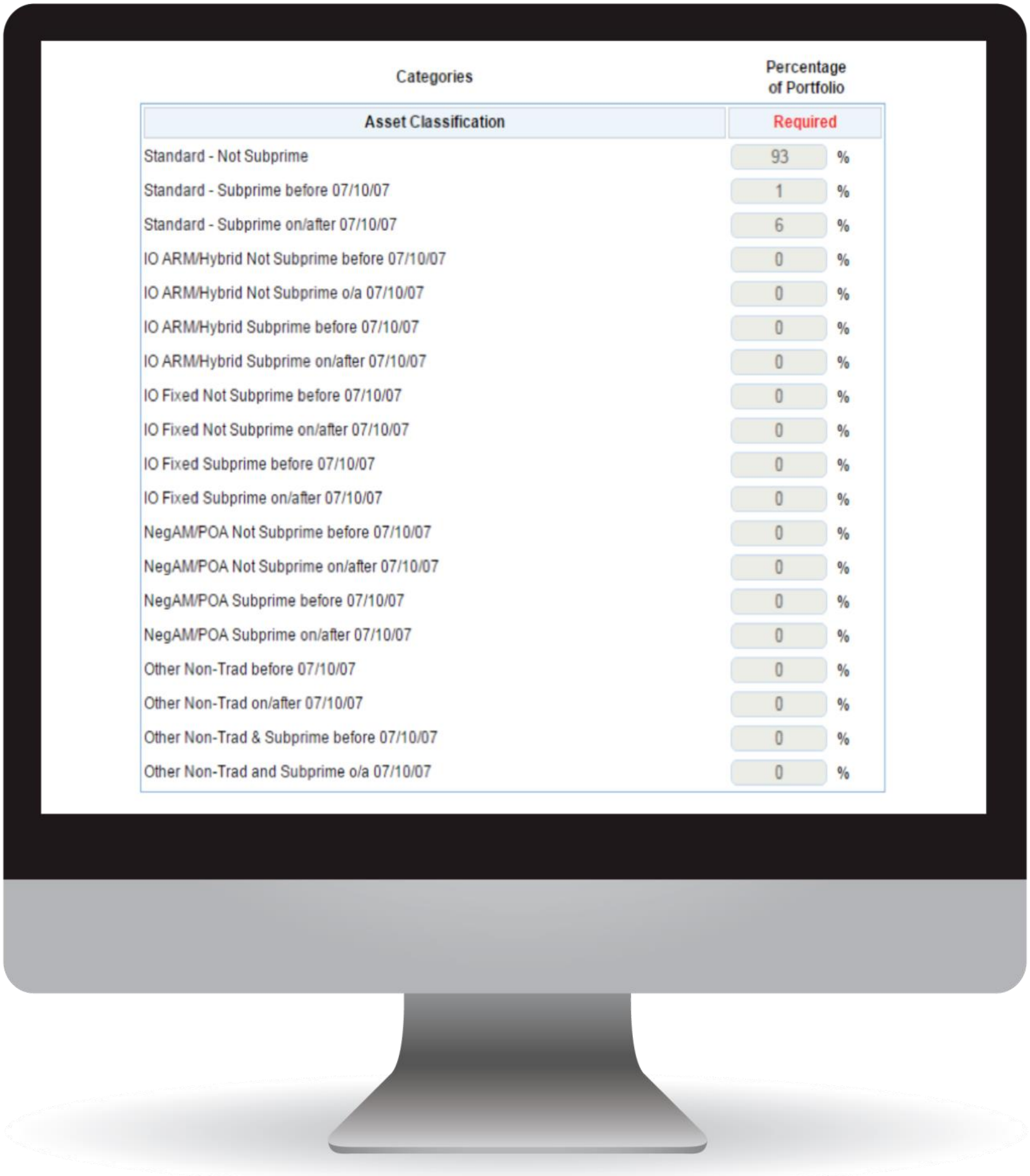


**HELP**

Below is the list of characteristics of CVR collateral which were used to compute the Market Value and Discount used to calculate the Market Value Amount of your submitted QCR:

| | |
|---|---|
| Non Jumbo - Low LTV (< 60%) | 37.6% |
| Non Jumbo - Medium LTV (60%-80%) | 46.0% |
| Non Jumbo - High LTV (> 80%) | 2.4% |
| Jumbo - Low LTV (< 60%) | 3.5% |
| Jumbo - Medium LTV (60%-80%) | 10.5% |
| Jumbo - High LTV (> 80%) | 0.0% |

## Residential QCR (Sample): Page 2



| Categories | Percentage of Portfolio |
|---|---|
| **Asset Classification** | **Required** |
| Standard - Not Subprime | 93 % |
| Standard - Subprime before 07/10/07 | 1 % |
| Standard - Subprime on/after 07/10/07 | 6 % |
| IO ARM/Hybrid Not Subprime before 07/10/07 | 0 % |
| IO ARM/Hybrid Not Subprime o/a 07/10/07 | 0 % |
| IO ARM/Hybrid Subprime before 07/10/07 | 0 % |
| IO ARM/Hybrid Subprime on/after 07/10/07 | 0 % |
| IO Fixed Not Subprime before 07/10/07 | 0 % |
| IO Fixed Not Subprime on/after 07/10/07 | 0 % |
| IO Fixed Subprime before 07/10/07 | 0 % |
| IO Fixed Subprime on/after 07/10/07 | 0 % |
| NegAM/POA Not Subprime before 07/10/07 | 0 % |
| NegAM/POA Not Subprime on/after 07/10/07 | 0 % |
| NegAM/POA Subprime before 07/10/07 | 0 % |
| NegAM/POA Subprime on/after 07/10/07 | 0 % |
| Other Non-Trad before 07/10/07 | 0 % |
| Other Non-Trad on/after 07/10/07 | 0 % |
| Other Non-Trad & Subprime before 07/10/07 | 0 % |
| Other Non-Trad and Subprime o/a 07/10/07 | 0 % |

## Determining Asset Classifications

To determine the asset classifications above, you will need specific loan level information:

- Origination date
- Credit score and DTI ratio (for Subprime versus Not Subprime determination)
- Documentation type (for Standard versus Nontraditional determination)
- Loan type

## Additional Instructions – Page Two

- The information on this page is required, and only completed forms can be processed upon submission
- The total of all percentages entered in the **Asset Classification** categories must be 100 percent and should be in whole numbers (for example, “40” for 40 percent)
- All percentages calculated on this page must be expressed as a percentage of the UPB entered on page one in the row labeled **iii. Net Eligible 1-4 Family First Mortgage Loans**

## Additional Instructions – Page Three

- Instructions for page three of the QCR can be found by referring to the QCR example templates in the Resource Center of the Bank’s public website.

### Expressing Percentage of UPB

For example, the percentage of loans reported as **Standard - Subprime on/after 07/10/07** on page two of the Residential QCR would be calculated as the sum of the current UPB of these loans divided by the UPB on **Line iii, Net Eligible 1-4 Family First Mortgage Loans** on page one of the Residential QCR.

## Standard Loans

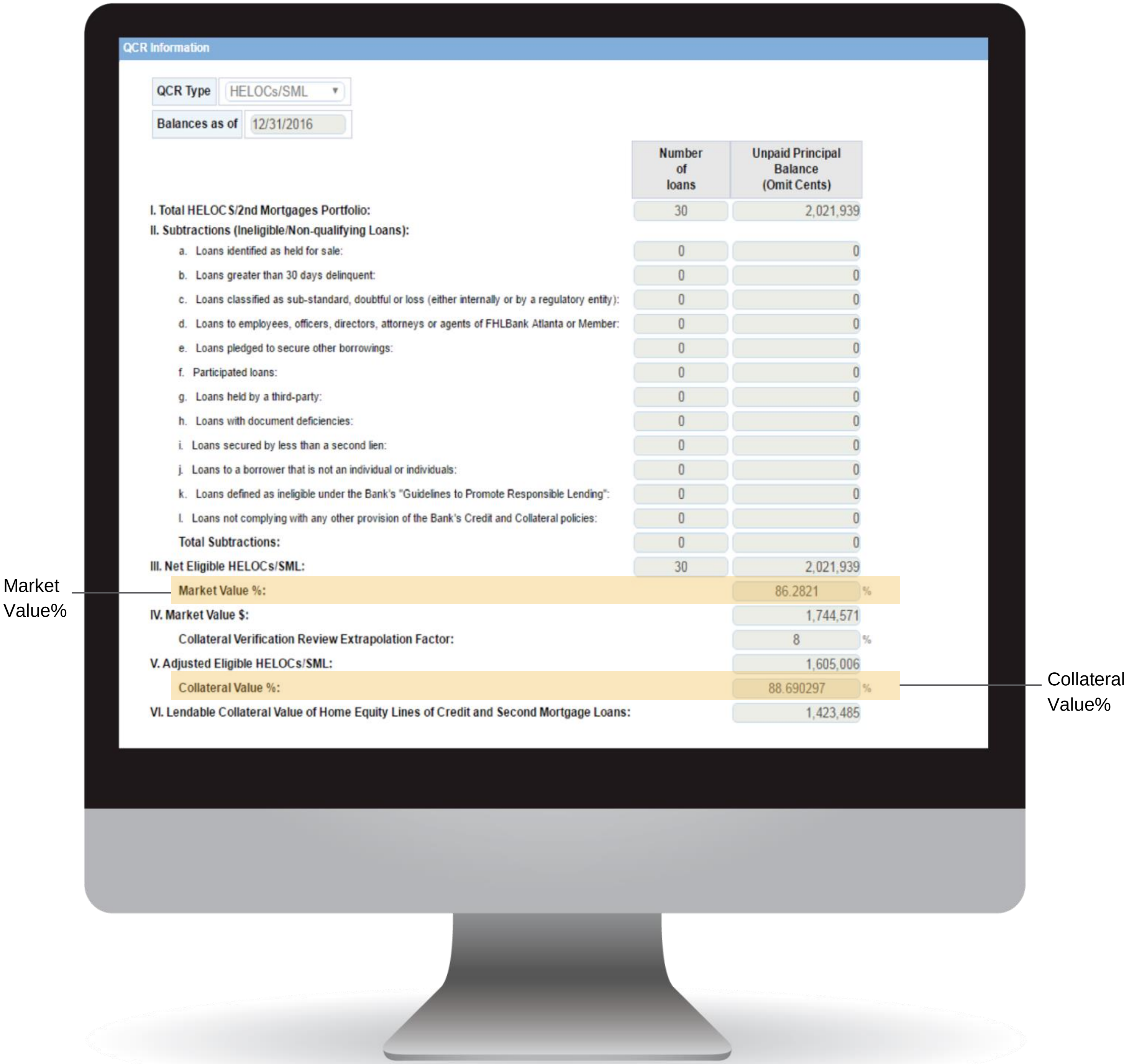
Standard loans do not exhibit any nontraditional characteristics. These loans have amortizing principal and interest payments and traditional income documentation (full documentation or alternative documentation). Use of Desktop Underwriter (DU) or Loan Prospector (LP) is also considered traditional documentation if all conditions listed on the DU/LP approval have been met. These loans may be fixed rate, adjustable rate, or balloons and may be classified as Standard – Not Subprime or Standard – Subprime.

## Nontraditional Loans

Nontraditional Loans are characterized in two ways: payment structures and loan underwriting documentation. Nontraditional payment structures include loans with interest-only, negative amortization, and payment option ARM features. Nontraditional loans can also be characterized by low levels of underwriting documentation (e.g., reduced or no-documentation loans) and are defined as "Other Nontraditional."

RES HELOC MF CRE FARM

## HELOC/HEL QCR, Page 1




QCR Information

QCR Type: HELOCs/SML

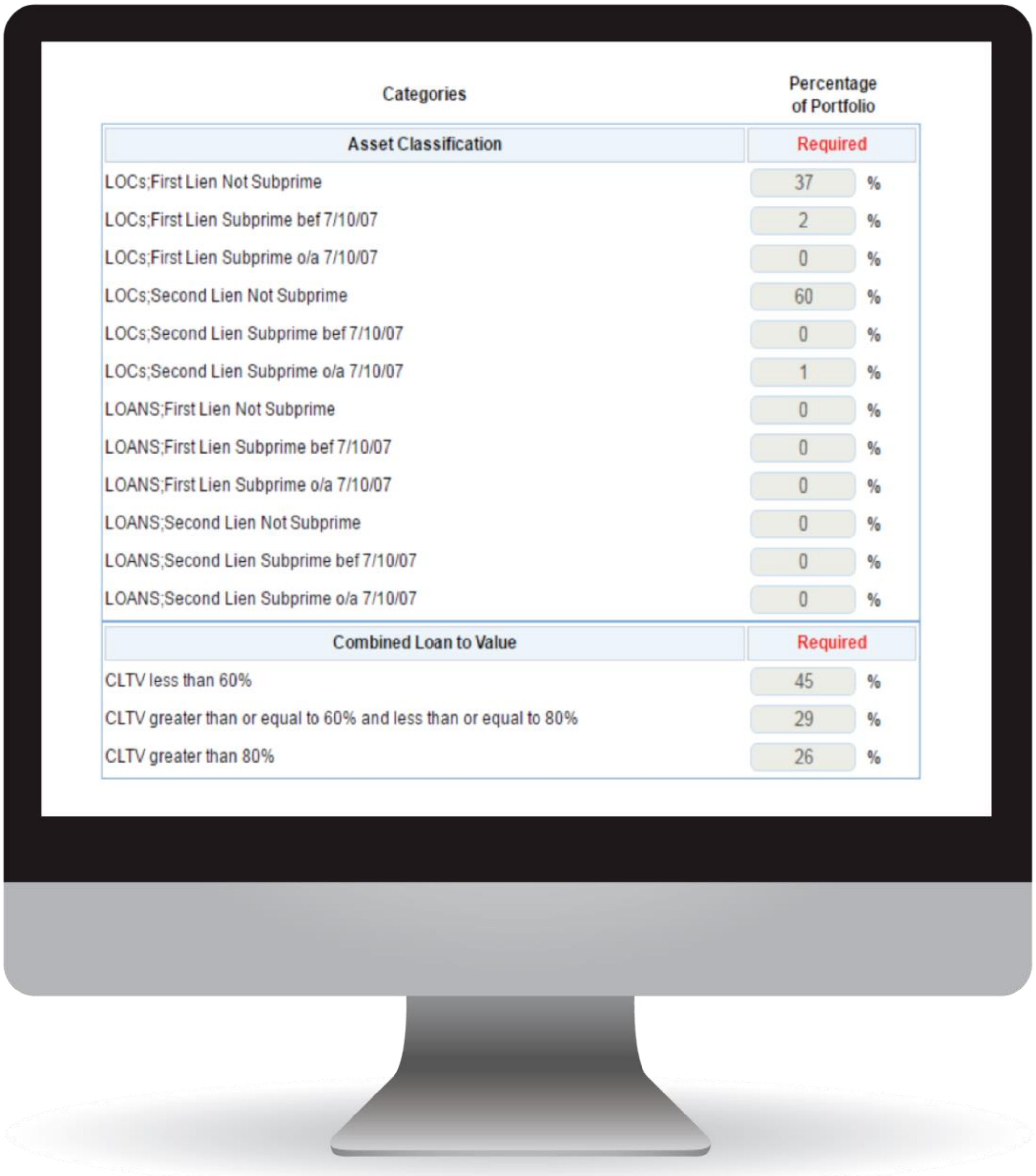
Balances as of: 12/31/2016

| | Number of loans | Unpaid Principal Balance (Omit Cents) |
|---|---|---|
| I. Total HELOC S/2nd Mortgages Portfolio: | 30 | 2,021,939 |
| II. Subtractions (Ineligible/Non-qualifying Loans): | | |
| a. Loans identified as held for sale: | 0 | 0 |
| b. Loans greater than 30 days delinquent: | 0 | 0 |
| c. Loans classified as sub-standard, doubtful or loss (either internally or by a regulatory entity): | 0 | 0 |
| d. Loans to employees, officers, directors, attorneys or agents of FHLBank Atlanta or Member: | 0 | 0 |
| e. Loans pledged to secure other borrowings: | 0 | 0 |
| f. Participated loans: | 0 | 0 |
| g. Loans held by a third-party: | 0 | 0 |
| h. Loans with document deficiencies: | 0 | 0 |
| i. Loans secured by less than a second lien: | 0 | 0 |
| j. Loans to a borrower that is not an individual or individuals: | 0 | 0 |
| k. Loans defined as ineligible under the Bank's "Guidelines to Promote Responsible Lending": | 0 | 0 |
| l. Loans not complying with any other provision of the Bank's Credit and Collateral policies: | 0 | 0 |
| Total Subtractions: | 0 | 0 |
| III. Net Eligible HELOCs/SML: | 30 | 2,021,939 |
| Market Value %: | | 86.2821 % |
| IV. Market Value $: | | 1,744,571 |
| Collateral Verification Review Extrapolation Factor: | | 8 % |
| V. Adjusted Eligible HELOCs/SML: | | 1,605,006 |
| Collateral Value %: | | 88.690297 % |
| VI. Lendable Collateral Value of Home Equity Lines of Credit and Second Mortgage Loans: | | 1,423,485 |

### Additional Instructions – Page One

- **Market Value %** is applied to the net eligible UPB and is based on the information you provide on page two of the QCR
- **Collateral Value** (Collateral Value % is equal to the LCV percentage) is a discount applied to the net eligible UPB and is based on the information you provide on page two of the QCR in addition to your institution's credit risk rating

## HELOC/HEL QCR, page 2



| Categories | Percentage of Portfolio | |
|---|---|---|
| **Asset Classification** | Required | |
| LOCs;First Lien Not Subprime | 37 | % |
| LOCs;First Lien Subprime bef 7/10/07 | 2 | % |
| LOCs;First Lien Subprime o/a 7/10/07 | 0 | % |
| LOCs;Second Lien Not Subprime | 60 | % |
| LOCs;Second Lien Subprime bef 7/10/07 | 0 | % |
| LOCs;Second Lien Subprime o/a 7/10/07 | 1 | % |
| LOANS;First Lien Not Subprime | 0 | % |
| LOANS;First Lien Subprime bef 7/10/07 | 0 | % |
| LOANS;First Lien Subprime o/a 7/10/07 | 0 | % |
| LOANS;Second Lien Not Subprime | 0 | % |
| LOANS;Second Lien Subprime bef 7/10/07 | 0 | % |
| LOANS;Second Lien Subprime o/a 7/10/07 | 0 | % |
| **Combined Loan to Value** | Required | |
| CLTV less than 60% | 45 | % |
| CLTV greater than or equal to 60% and less than or equal to 80% | 29 | % |
| CLTV greater than 80% | 26 | % |

## Determining Asset Classifications

### "LOC" and "LOANS" Definition

"LOC" is an abbreviation for "Home Equity Line of Credit" (HELOC)
"LOANS" refers to close-ended, non-revolving, fully funded loans (home equity Loans)

To determine the asset classifications above, you will need specific loan level information:

- Origination date
- Credit score and DTI ratio (for Subprime versus Not Subprime determination)
- Lien position
- Loan type (home equity line of credit versus home equity loans)

## Additional Instructions – Page Two

- The information on this page is required, and only completed forms can be processed upon submission
- The total of all percentages entered in the **Asset Classification** categories must be 100 percent and should be in whole numbers (for example, "40" for 40 percent)
- Each of the percentages calculated in the **Asset Classification** section of this page must be expressed as a percentage of the UPB entered on page one in the row labeled **III. Net Eligible HELOCs/SML**

## Additional Instructions – Page Three

- Instructions for page three of the QCR can be found by referring to the QCR example templates located in the Resource Center of the Bank's public website

### Expressing Percentage of UPB

For example, the percentage of loans reported as **LOCs; First Lien Not** Subprime on page two of the HELOC/HEL QCR would be calculated as the sum of the current UPB of these loans divided by the UPB on **Line III, Net Eligible HELOCs/SML** on page one of the HELOC/HEL QCR.

- Each of the percentages calculated in the **CLTV** section of this page must be expressed as a percentage of the UPB entered on page one in the row labeled **III. Net Eligible HELOCs/SML**

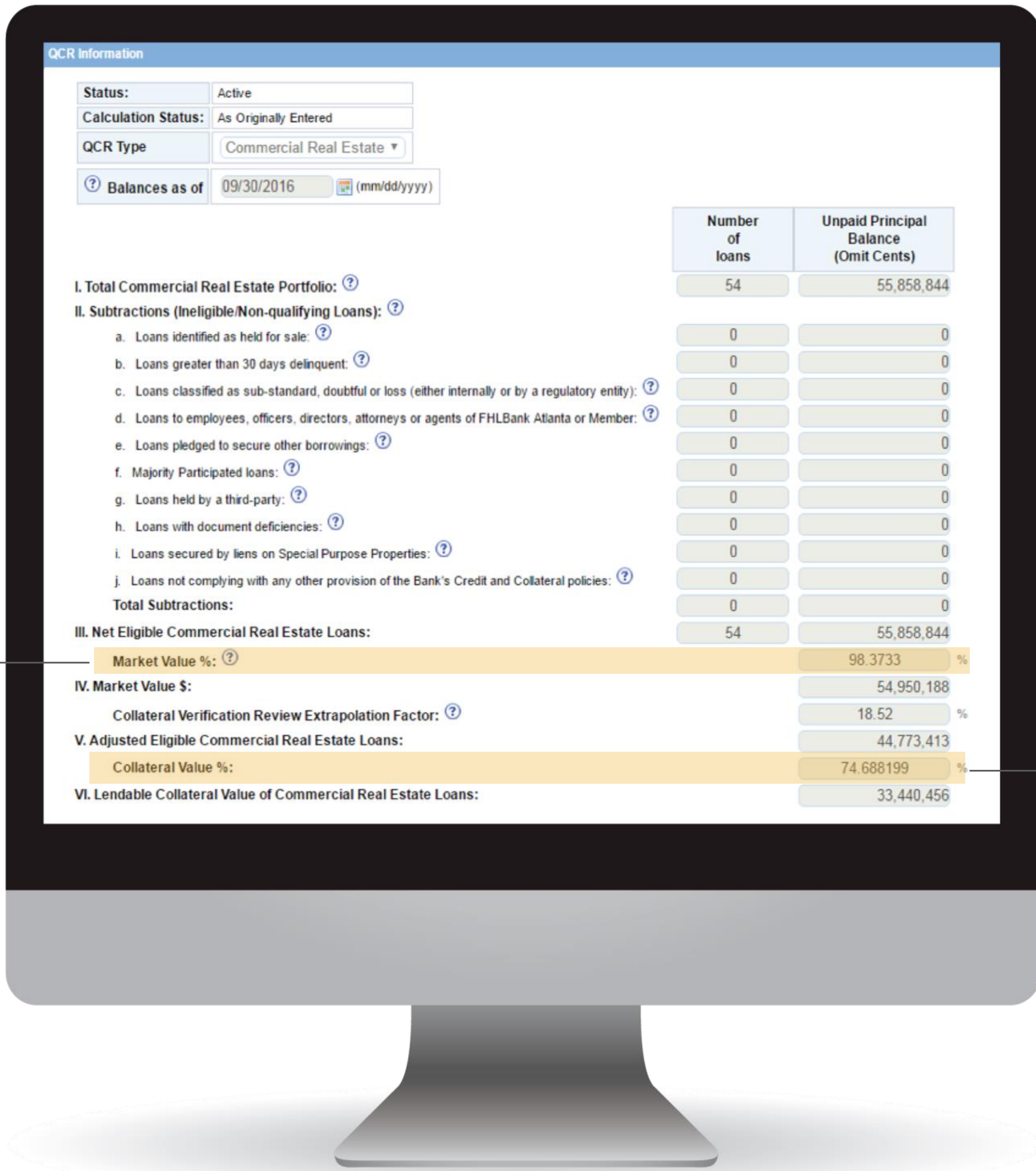
### Expressing Percentage of UPB in CLTV

For example, the percentage of loans reported with **CLTVs less than 60%** on page two of the HELOC/HEL QCR would be calculated as the sum of the maximum amount of the credit line and the current (UPB of the first mortgage (if applicable) for these loans divided by the UPB on **Line III, Net Eligible HELOCs/SML** on page one of the HELOC/HEL QCR. Please note that if the loans being reported are home equity loans, then the CLTV should be calculated using the combined current UPB of the first and second mortgages.

- The total of all percentages in Rows 13-15 in the **CLTV** section of this page must equal 100 percent

## Commercial Real Estate QCR, Page 1

Market Value%


QCR Information

| | |
|---|---|
| Status: | Active |
| Calculation Status: | As Originally Entered |
| QCR Type | Commercial Real Estate |
| Balances as of | 09/30/2016 (mm/dd/yyyy) |

| | Number of loans | Unpaid Principal Balance (Omit Cents) | |
|---|---|---|---|
| I. Total Commercial Real Estate Portfolio: | 54 | 55,858,844 | |
| II. Subtractions (Ineligible/Non-qualifying Loans): | | | |
| a. Loans identified as held for sale: | 0 | 0 | |
| b. Loans greater than 30 days delinquent: | 0 | 0 | |
| c. Loans classified as sub-standard, doubtful or loss (either internally or by a regulatory entity): | 0 | 0 | |
| d. Loans to employees, officers, directors, attorneys or agents of FHLBank Atlanta or Member: | 0 | 0 | |
| e. Loans pledged to secure other borrowings: | 0 | 0 | |
| f. Majority Participated loans: | 0 | 0 | |
| g. Loans held by a third-party: | 0 | 0 | |
| h. Loans with document deficiencies: | 0 | 0 | |
| i. Loans secured by liens on Special Purpose Properties: | 0 | 0 | |
| j. Loans not complying with any other provision of the Bank's Credit and Collateral policies: | 0 | 0 | |
| Total Subtractions: | 0 | 0 | |
| III. Net Eligible Commercial Real Estate Loans: | 54 | 55,858,844 | |
| Market Value %: | | 98.3733 | % |
| IV. Market Value $: | | 54,950,188 | |
| Collateral Verification Review Extrapolation Factor: | | 18.52 | % |
| V. Adjusted Eligible Commercial Real Estate Loans: | | 44,773,413 | |
| Collateral Value %: | | 74.688199 | % |
| VI. Lendable Collateral Value of Commercial Real Estate Loans: | | 33,440,456 | |

Collateral Value%

### Additional Instructions – Page One

- **Market Value %** is applied to the net eligible UPB and is based on the information you provide on page two of the QCR
- **Collateral Value %** (Collateral Value % is equal to the LCV percentage) is a discount applied to the net eligible UPB and is based on the information you provide on page two of the QCR in addition to your institution's credit risk rating

## Commercial Real Estate QCR, Page 2

| Categories | Percentage of Portfolio |
|---|---|
| **Asset Classification** | **Required** |
| Standard (Level 1) | 0 % |
| Special Purpose (Level 1) | 0 % |
| Standard CLTV < 60 (Level 2 & 3) | 22 % |
| Standard CLTV 60 - 80 (Level 2 & 3) | 71 % |
| Standard CLTV 81 - 85 (Level 2 & 3) | 1 % |
| Special Purpose CLTV < 60 (Level 2 & 3) | 3 % |
| Special Purpose CLTV 60 - 80 (Level 2 & 3) | 3 % |
| Special Purpose CLTV 81 - 85 (Level 2 & 3) | 0 % |
| **Debt Service Coverage Ratio (Level 3 Only)** | |
| DSCR less than 1 | 0 % |
| DSCR greater than or equal to 1 | 0 % |
| **Remaining Maturity (Level 3 Only)** | |
| Greater than 7 years | 0 % |
| Greater than or equal to 3 years and less than or equal to 7 years | 0 % |
| Less than 3 years | 0 % |

## Additional Instructions – Page Two

- The information on this page is required, and only completed forms can be processed upon submission
- There are two categories of commercial real estate collateral (Standard and Special Purpose), classified in three reporting levels with the following characteristics:
  - UPB (Level 1 Only)
  - UPB and CLTV (Levels 2 and 3 Only)
  - DSCR (Level 3 Only)
- Remaining Maturity (Level 3 Only)
- You should select either Level 1, 2, or 3 and complete the required fields for that level
- The total of all percentages entered for any of the levels must equal to 100 percent

## Additional Instructions – Page Three

- Instructions for page three of the QCR can be found by referring to the QCR example templates located in the Resource Center of the Bank's public website

### Percentages for Each Level Equaling 100%

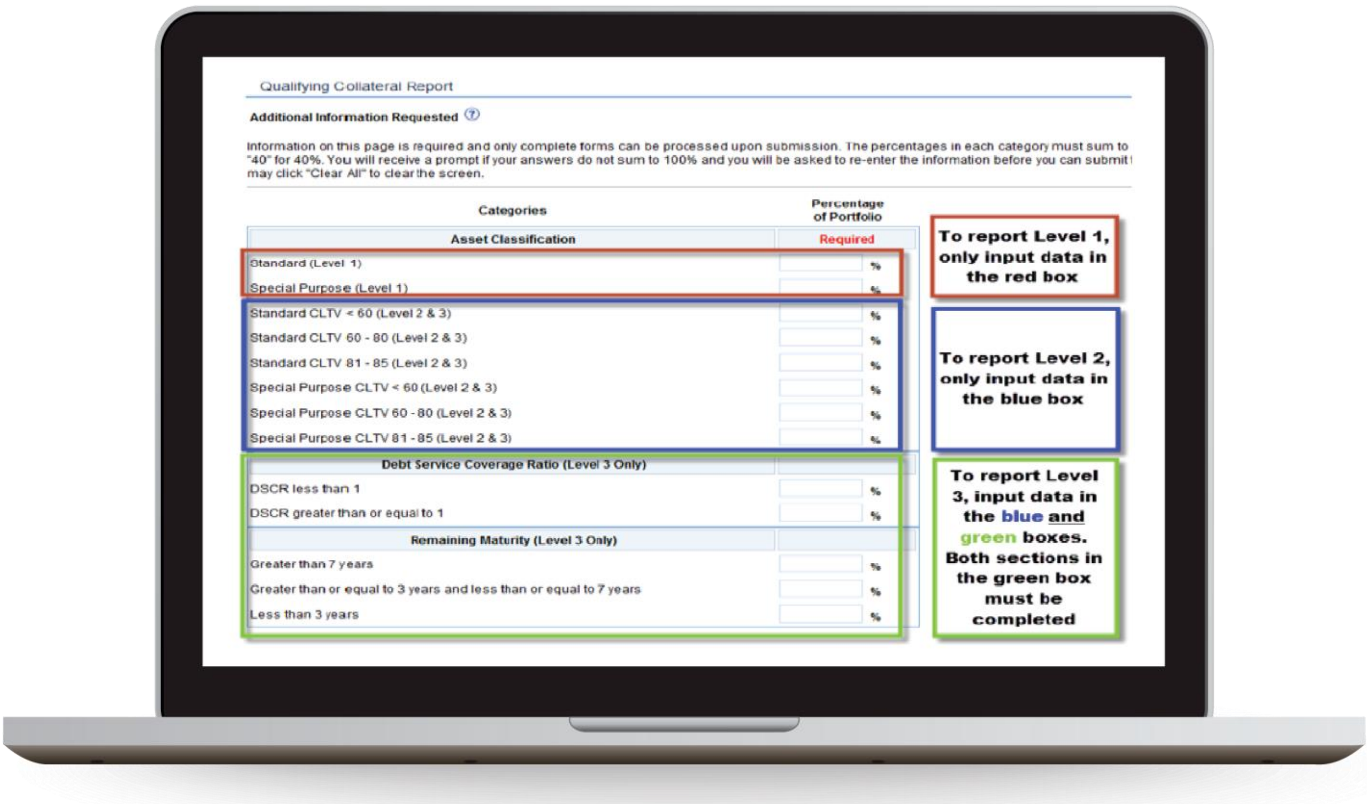
For example, If you report loans in **Remaining Maturity (Level 3 Only)**, then the sum of all categories of remaining maturity (Greater than 7 years, Greater than or equal to 3 years and less than or equal to 7 years, Less than 3 years) must total 100 percent.

- All entries should be in whole numbers (for example, "40" for 40 percent)
- All percentages calculated on this page must be expressed as a percentage of the UPB entered on page one in the row labeled **III. Net Eligible Commercial Real Estate Loans**

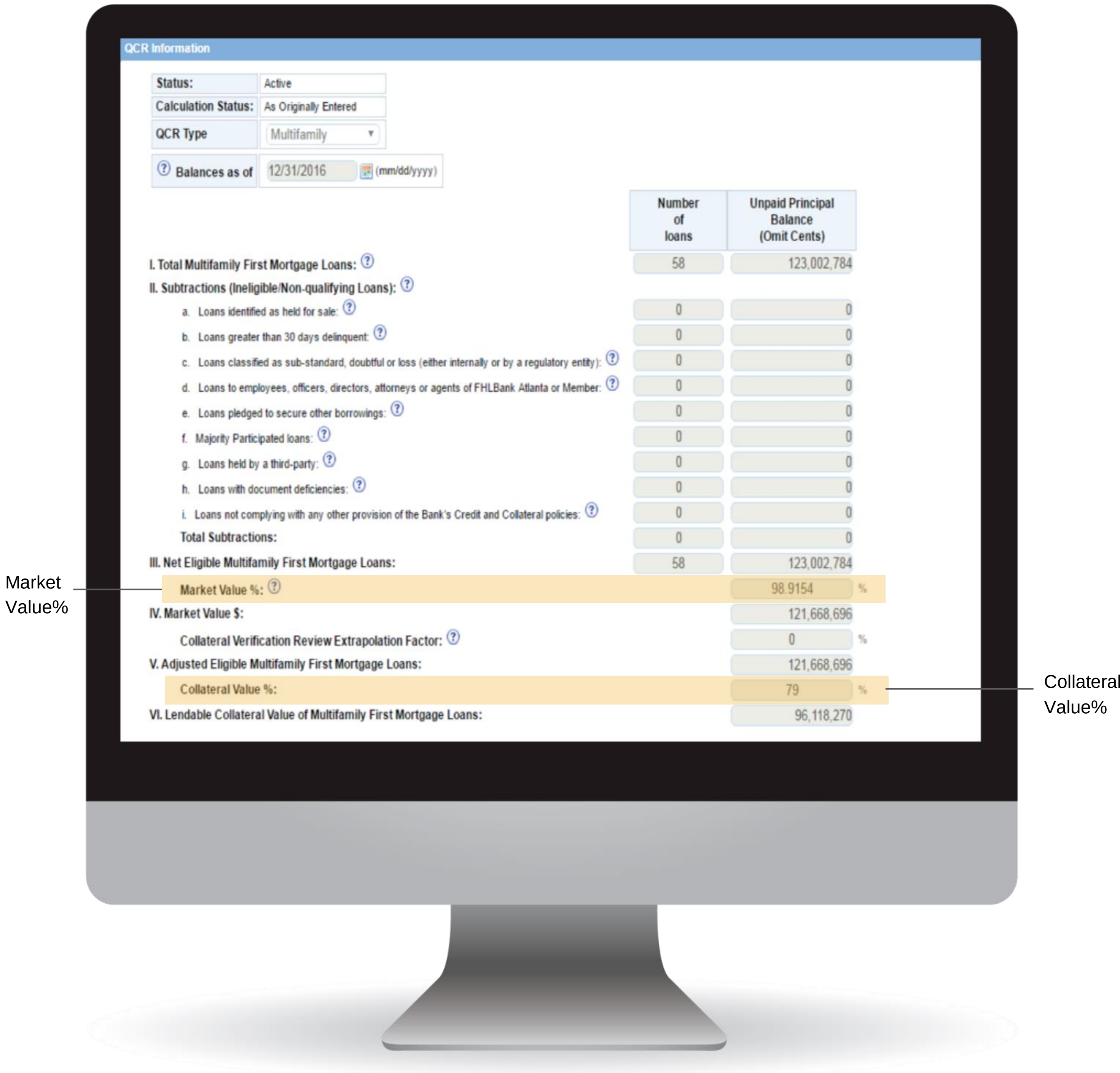
### Expressing Percentage of UPB

For example, the percentage of loans reported with **Less than 3 years** maturity on page two of the Commercial QCR would be calculated as the sum of the current UPB of these loans divided by the UPB on **Line III, Net Eligible Commercial Real Estate Loans** on page one of the Commercial QCR.

## How to Input Different Levels of Reporting (Commercial)



## Multifamily QCR, Page 1




QCR Information

| | |
|---|---|
| Status: | Active |
| Calculation Status: | As Originally Entered |
| QCR Type | Multifamily |
| Balances as of | 12/31/2016 (mm/dd/yyyy) |

| | Number of loans | Unpaid Principal Balance (Omit Cents) | |
|---|---|---|---|
| I. Total Multifamily First Mortgage Loans: | 58 | 123,002,784 | |
| II. Subtractions (Ineligible/Non-qualifying Loans): | | | |
| a. Loans identified as held for sale: | 0 | 0 | |
| b. Loans greater than 30 days delinquent: | 0 | 0 | |
| c. Loans classified as sub-standard, doubtful or loss (either internally or by a regulatory entity): | 0 | 0 | |
| d. Loans to employees, officers, directors, attorneys or agents of FHLBank Atlanta or Member: | 0 | 0 | |
| e. Loans pledged to secure other borrowings: | 0 | 0 | |
| f. Majority Participated loans: | 0 | 0 | |
| g. Loans held by a third-party: | 0 | 0 | |
| h. Loans with document deficiencies: | 0 | 0 | |
| i. Loans not complying with any other provision of the Bank's Credit and Collateral policies: | 0 | 0 | |
| Total Subtractions: | 0 | 0 | |
| III. Net Eligible Multifamily First Mortgage Loans: | 58 | 123,002,784 | |
| Market Value %: | | 98.9154 | % |
| IV. Market Value $: | | 121,668,696 | |
| Collateral Verification Review Extrapolation Factor: | | 0 | % |
| V. Adjusted Eligible Multifamily First Mortgage Loans: | | 121,668,696 | |
| Collateral Value %: | | 79 | % |
| VI. Lendable Collateral Value of Multifamily First Mortgage Loans: | | 96,118,270 | |

### Additional Instructions – Page One

- **Market Value %** is applied to the net eligible UPB and is based on the information you provide on page two of the QCR
- **Collateral Value %** (Collateral Value % is equal to the LCV percentage) is a discount applied to the net eligible UPB and is based on the information you provide on page two of the QCR in addition to your institution's credit risk rating

## Multifamily QCR, Page 2

| Categories | Percentage of Portfolio |
|---|---|
| **Asset Classification** | Required |
| Standard (Level 1) | 0 % |
| Standard CLTV < 60 (Level 2 & 3) | 31 % |
| Standard CLTV 60 - 80 (Level 2 & 3) | 65 % |
| Standard CLTV 81 - 85 (Level 2 & 3) | 4 % |
| **Debt Service Coverage Ratio (Level 3 Only)** | |
| DSCR less than 1 | 3 % |
| DSCR greater than or equal to 1 | 97 % |
| **Remaining Maturity (Level 3 Only)** | |
| Greater than 7 years | 2 % |
| Greater than or equal to 3 years and less than or equal to 7 years | 13 % |
| Less than 3 years | 85 % |

## Additional Instructions – Page Two

- The information on this page is required, and only completed forms can be processed upon submission
- Multifamily loan collateral is classified in three reporting levels with the following characteristics:
  - UPB (Level 1 Only)
  - UPB and CLTV (Levels 2 and 3 Only)
  - DSCR (Level 3 Only)
  - Remaining Maturity (Level 3 Only)
- You should select either Level 1, 2, or 3 and complete the required fields for that level
- The total of all percentages entered for any of the levels must equal to 100 percent

## Additional Instructions – Page Three

- Instructions for page three of the QCR can be found by referring to the QCR example templates located in the Resource Center of the Bank's public website

### Percentages for Each Level Equaling 100%

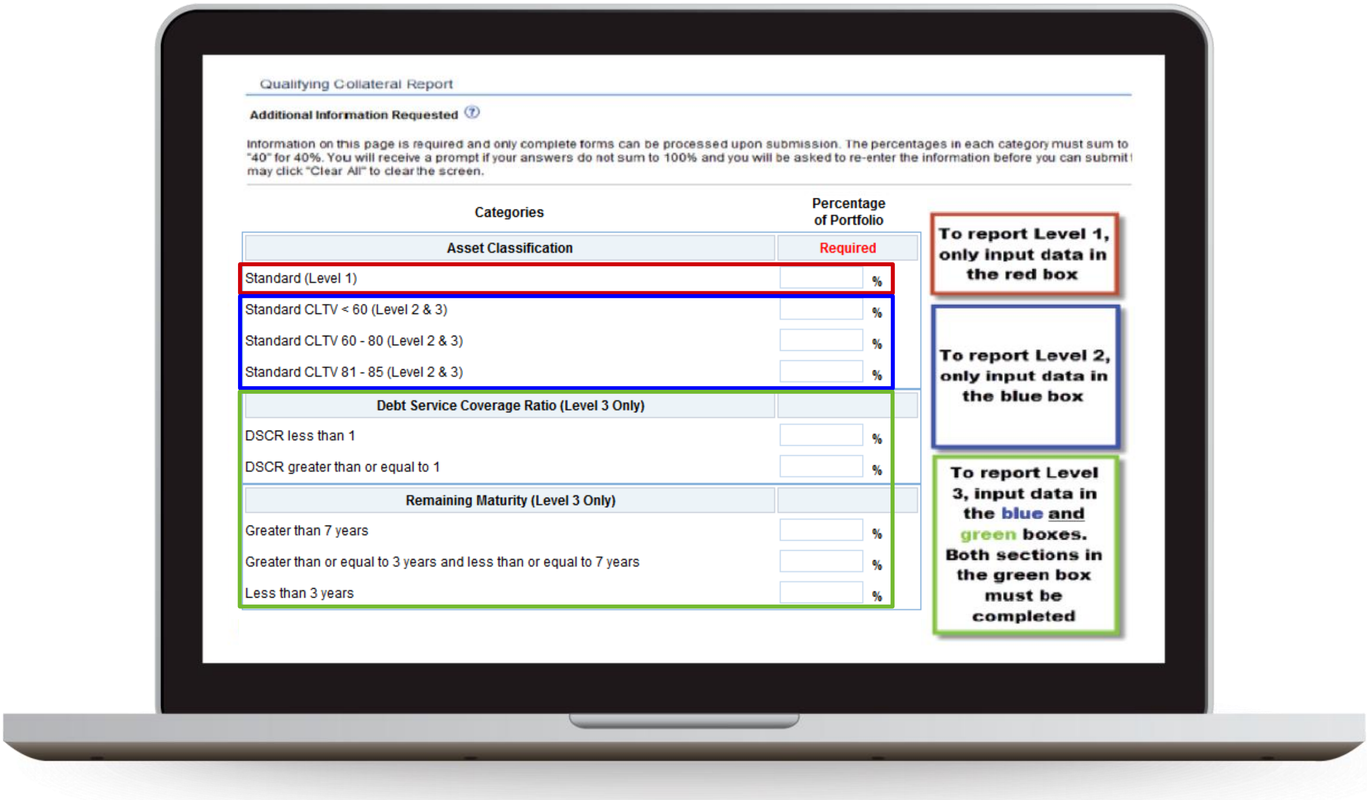
If you report loans in **Remaining Maturity (Level 3 Only)**, then the sum of all categories of remaining maturity (Greater than 7 years, Greater than or equal to 3 years and less than or equal to 7 years, Less than 3 years) must total 100 percent.

- All entries should be in whole numbers (for example, "40" for 40 percent)
- All percentages calculated on this page must be expressed as a percentage of UPB entered on page one in the row labeled **iii. Net Eligible Multifamily First Mortgage Loans**

### Expressing Percentage of UPB

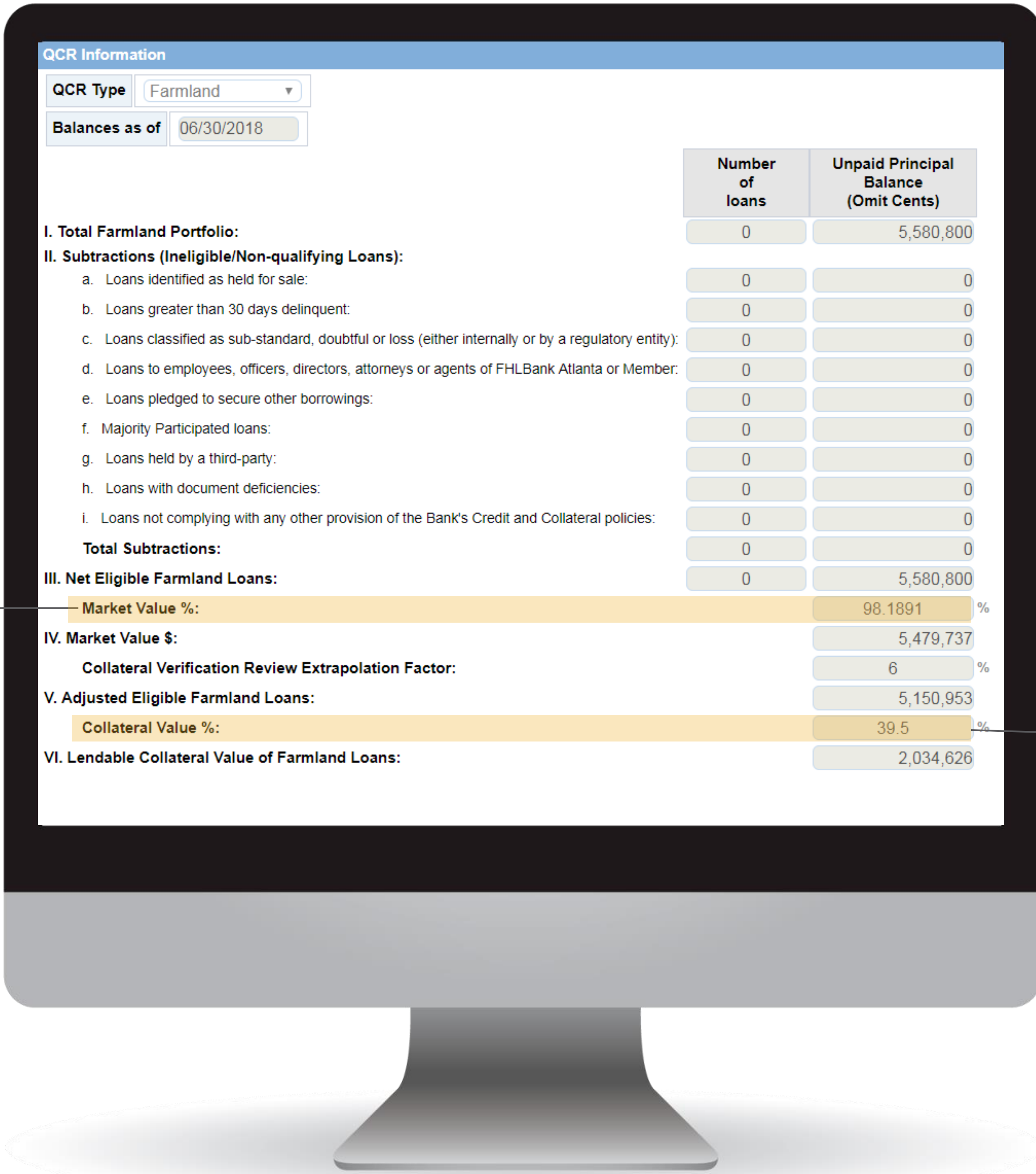
For example, the percentage of loans reported with **Less than 3 years** maturity on page two of the Multifamily QCR would be calculated as the sum of the current UPB of these loans divided by the UPB on **Line iii, Net Eligible Multifamily Real Estate Loans** on page one of the Multifamily QCR.

## How to Input Different Levels of Reporting (Multifamily)



## Farmland QCR, Page 1

Market Value%



**QCR Information**

**QCR Type** Farmland

**Balances as of** 06/30/2018

| | Number of loans | Unpaid Principal Balance (Omit Cents) | |
|---|---|---|---|
| **I. Total Farmland Portfolio:** | 0 | 5,580,800 | |
| **II. Subtractions (Ineligible/Non-qualifying Loans):** | | | |
| a. Loans identified as held for sale: | 0 | 0 | |
| b. Loans greater than 30 days delinquent: | 0 | 0 | |
| c. Loans classified as sub-standard, doubtful or loss (either internally or by a regulatory entity): | 0 | 0 | |
| d. Loans to employees, officers, directors, attorneys or agents of FHLBank Atlanta or Member: | 0 | 0 | |
| e. Loans pledged to secure other borrowings: | 0 | 0 | |
| f. Majority Participated loans: | 0 | 0 | |
| g. Loans held by a third-party: | 0 | 0 | |
| h. Loans with document deficiencies: | 0 | 0 | |
| i. Loans not complying with any other provision of the Bank's Credit and Collateral policies: | 0 | 0 | |
| **Total Subtractions:** | 0 | 0 | |
| **III. Net Eligible Farmland Loans:** | 0 | 5,580,800 | |
| **Market Value %:** | | 98.1891 | % |
| **IV. Market Value $:** | | 5,479,737 | |
| **Collateral Verification Review Extrapolation Factor:** | | 6 | % |
| **V. Adjusted Eligible Farmland Loans:** | | 5,150,953 | |
| **Collateral Value %:** | | 39.5 | % |
| **VI. Lendable Collateral Value of Farmland Loans:** | | 2,034,626 | |

Collateral Value%

### Additional Instructions – Page One

- **Market Value %** is applied to the net eligible UPB and is based on the information you provide on page two of the QCR
- **Collateral Value %** (Collateral Value % is equal to the LCV percentage) is a discount applied to the net eligible UPB and is based on the information you provide on page two of the QCR in addition to your institution’s credit risk rating

## Farmland QCR, Page 2

| Categories | Percentage of Portfolio |
|---|---|
| **Asset Classification** | **Required** |
| Standard (Level 1) | 0 % |
| Standard CLTV < 60 (Level 2 & 3) | 31 % |
| Standard CLTV 60 - 80 (Level 2 & 3) | 65 % |
| Standard CLTV 81 - 85 (Level 2 & 3) | 4 % |
| **Debt Service Coverage Ratio (Level 3 Only)** | |
| DSCR less than 1 | 3 % |
| DSCR greater than or equal to 1 | 97 % |
| **Remaining Maturity (Level 3 Only)** | |
| Greater than 7 years | 2 % |
| Greater than or equal to 3 years and less than or equal to 7 years | 13 % |
| Less than 3 years | 85 % |

## Additional Instructions – Page Two

- The information on this page is required, and only completed forms can be processed upon submission
- Farmland loan collateral is classified in three reporting levels with the following characteristics:
  - UPB (Level 1 Only)
  - UPB and CLTV (Levels 2 and 3 Only)
  - DSCR (Level 3 Only)
  - Remaining Maturity (Level 3 Only)
- You should select either Level 1, 2, or 3 and complete the required fields for that level
- The total of all percentages entered for any of the levels must equal to 100 percent

## Additional Instructions – Page Three

- Instructions for page three of the QCR can be found by referring to the QCR example templates located in the Resource Center of the Bank's public website

### Percentages for Each Level Equaling 100%

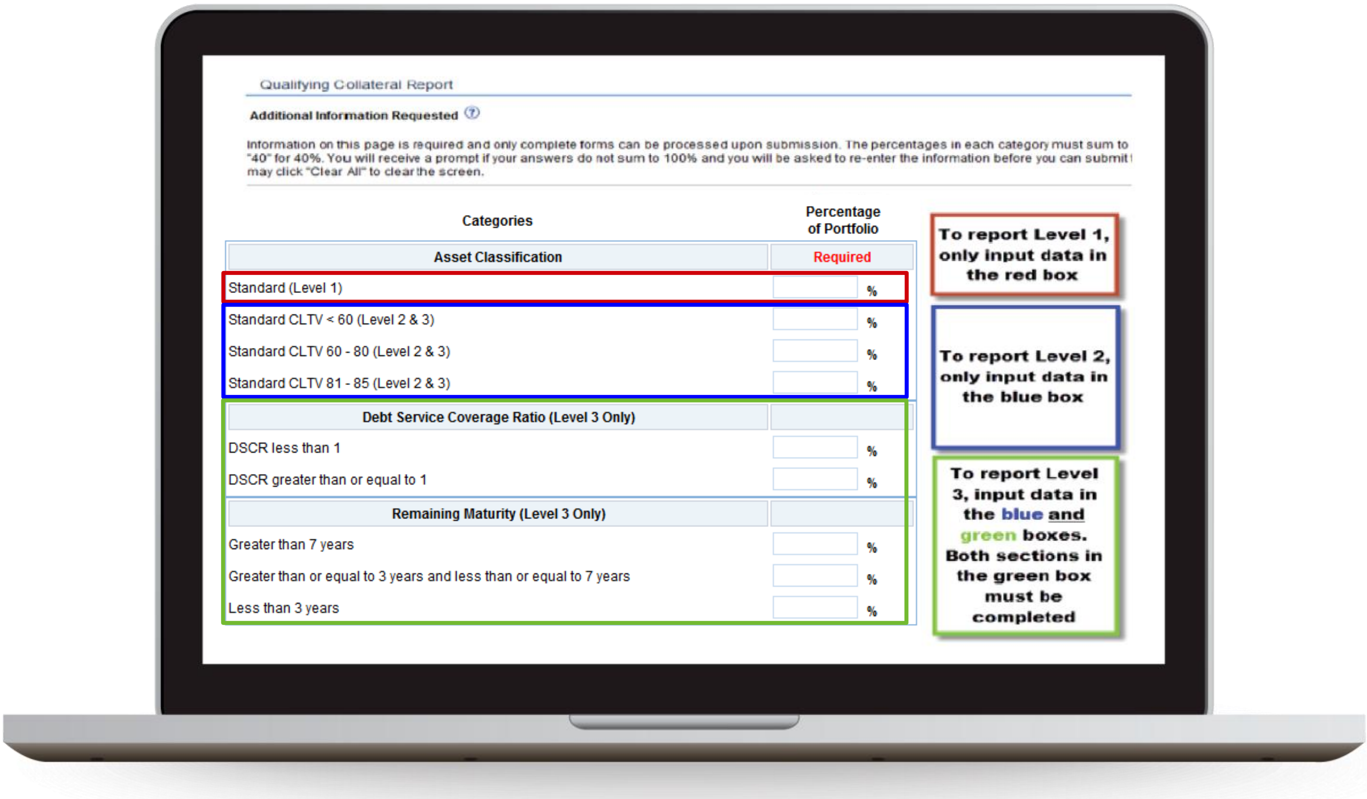
If you report loans in **Remaining Maturity (Level 3 Only)**, then the sum of all categories of remaining maturity (Greater than 7 years, Greater than or equal to 3 years and less than or equal to 7 years, Less than 3 years) must total 100 percent.

- All entries should be in whole numbers (for example, "40" for 40 percent)
- All percentages calculated on this page must be expressed as a percentage of UPB entered on page one in the row labeled **iii. Net Eligible Farmland Loans**

### Expressing Percentage of UPB

For example, the percentage of loans reported with **Less than 3 years** maturity on page two of the Farmland QCR would be calculated as the sum of the current UPB of these loans divided by the UPB on **Line iii, Net Eligible Farmland Loans** on page one of the Farmland QCR.

## How to Input Different Levels of Reporting (Farmland)



# SECTION FIVE

## COLLATERAL VERIFICATION REVIEW (CVR)

This section of the Loan Collateral Resource Guide discusses the Collateral Verification Review (CVR) process. Periodically, FHLBank Atlanta will review the loan collateral you report. The CVR is a physical review of a statistical sample of your reported loan collateral. Through the CVR process, the Bank verifies that the loans you report are eligible in accordance with its collateral eligibility guidelines. During the CVR, the Bank also analyzes your loan documentation and administration processes and controls. Generally, the Bank conducts the review at your institution.

The Bank determines the frequency and type of CVR you require based on its evaluation of risk factors, including, but not limited to:

- The amount of the Bank's credit exposure to your institution
- Potential concerns regarding your institution's credit risk to the Bank

If you have additional questions about the CVR process, please contact the Collateral Relationship Specialist assigned to your institution.

**REMEMBER:** If you click on hyperlinked text and then want to return to the previous page, press the **ALT and Left Arrow** keys on your keyboard to navigate back.

# Collateral Verification Review (CVR)

RES HELOC MF CRE FARM

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Please note that the phrase "effective date of reporting" used in the Guide is equivalent to the "Balances as of date" on the Qualifying Collateral Report (QCR) and the Collateral Verification Review (CVR) "as of" date.

## Collateral Verification Compliance

The Bank conducts CVRs for several reasons:

- To ensure that the loan collateral you report meets all of the Bank's eligibility criteria necessary to receive lendable collateral value (LCV)
- To comply with regulatory requirements:

"Each Bank shall establish written procedures and standards for verifying the existence of collateral securing the Bank's advances, and shall regularly verify the existence of the collateral securing its advances in accordance with such procedures and standards."

*Code of Federal Regulations*, Title 12, Chapter IX, Section 950.9(b)

- To ensure the accuracy of the assertions regarding sufficient collateral in the Bank's financial statements
- To provide the Bank's board of directors and senior management with information concerning the Bank's exposure to subprime and nontraditional loans

## CVR Overview

The Bank conducts CVRs at the location your institution specifies. If you are selected for a CVR, all loan portfolios with reported collateral will be reviewed. Each CVR is led by a Bank-employed Collateral Analyst who acts as the review team leader and your primary contact during the onsite portion of the review.

Collateral analysts may be assisted by third-party review firms. The firms the Bank selects are experienced, well-qualified, and knowledgeable about the Bank's collateral policies and its CVR program. Third-party firms assisting with the CVRs are also subject to a rigorous qualification process, with required attendance at annual training sessions. The Bank periodically performs random checks on each firm's work product for completeness and accuracy. Additionally, third-party firms are subject to Bank confidentiality agreements that cover both your institution and the Bank.

Bank staff perform all follow-up activities, including the review of supplemental documentation to cure exceptions and extrapolation rate calculations.

## CVR Selection Process

Shareholders are reviewed on a one-, two-, three-, or four-year cycle contingent upon certain risk-based selection criteria and outstanding exposure.

The Bank will review each shareholder with outstanding exposure that relies on loan collateral at least once every four years. Certain shareholders may be reviewed more frequently. For more information on CVRs, please refer to the Credit and Collateral Policy section of the Member Products and Services Guide.

### One-year Cycle

Your institution is selected for review annually if it:

- Is one of the 30 largest borrowers of the Bank
- Has a credit risk rating of 103 or 104
- Exceeds 50 percent LCV in subprime and/or nontraditional loans originated before September 10, 2007
- Relies on loan collateral under a specific pledge
- Has credit availability greater than 30% of assets
- Is a national account shareholder reporting loan collateral
- Has a credit risk rating of 102 and has had significant increases in exposure or UPB
- Has LCV ≥ $1 billion and has not been reviewed within the last two years

### Two-year Cycle

Reviewed every other year if your institution:

- Is identified as a regional account shareholder that relies on loan collateral not included in the one-year cycle
- NOTE: regional account shareholders reporting loan collateral that have not been previously reviewed will be selected for a current year CVR regardless of reliance on loan collateral

### Three-year CVR Cycle

Reviewed every three years if your institution:

- Has a credit risk rating of 101 with high exposure and is not included in requirements for the one-year cycle
- Has a credit risk of 102 and is not included in the one-year cycle

### Four-year CVR Cycle

Reviewed every four years if your institution:

- Has a credit risk rating of 101 and has lower exposure that does not require it to be included in the three-year cycle

Credit risk ratings can be found in FHLBAccess on the "Home" tab for your institution. Credit risk ratings are updated quarterly.

## Exclusions from Onsite CVRs

Shareholders in loan file delivery are typically excluded from onsite CVRs but periodically, at the Bank's discretion, may be subject to remote CVRs conducted at the Bank's Atlanta office. The CVR selection requirements discussed above do not apply to shareholders in loan file delivery.

The Bank may require the delivery of reported mortgage collateral when a shareholder's credit risk rating is 103 or higher, or when the Bank deems it necessary in order for you to receive collateral value. Loan file delivery will be required for shareholders with a credit risk rating of 104 if they maintain that credit risk rating of 104 for two consecutive quarters or if severe deterioration occurs in financial condition in one quarter. Shareholders with a CAMELS composite rating of 5 on the most recent examination report on file with the Bank will also be required to deliver loan files.

Housing finance agencies (HFAs), community development financial institutions (CDFIs), and insurance companies, regardless of their credit risk rating, will also be required to deliver loan files in order to receive collateral value.

## Steps in the CVR Process

**Step 1: CVR Selection**
Written notification provided to your institution. if selected

**Step 2: Preparing for CVR**
Gather documentation according to "as of" date

**Step 3: Loan Sample Selections and Notification**
Bank selects random sample from your trial balance

**Step 4: Preparing Loan Files**
Follow Loan Document Checklists to assemble loan files

**Step 5: Onsite Review and Discussion with Management**
Review files, discuss procedures, discuss exceptions

**Step 6: Preliminary Results Notification**
Official preliminary results provided with exception rates for each portfolio

**Step 7: Follow-up Documentation and Exception Clearing**
Deliver additional documentation to clear exceptions within 10 days

**Step 8: Final Results Notification**
Official final results provided with exception and extrapolation rates for each portfolio

## Step 1: CVR Selection

The Bank will provide written notification to you in February if your institution is selected for a review during the current year. The Bank will work with you to select a date for the CVR that does not conflict with visits from examiners or auditors. An effective reporting date ("as of" date) for your CVR will also be selected and confirmed with you during the scheduling process.

In some instances, the Bank may select your institution for a CVR during the current year after the month of February. In those cases, you will receive notification at least four to six weeks prior to the date selected for the review.

If you reported loan portfolios for the first time, you may be subject to a CVR in the same year of reporting if the reported loan collateral is being used to secure outstanding exposure. The timing of the first review of loan collateral depends upon when you first reported the loans and when you actually began to rely on loan collateral to secure exposure.

## Step 2: Preparing For the CVR

Prior to the effective reporting date ("as of" date) selected for your CVR, you will receive an "As of" Date Notification Letter via email from the Collateral Coordinator assigned to your institution. The notification letter will include the date of the review and the portfolios to be reviewed, in addition to a request for documents you need to provide in advance of the review date.

### Documents You Need to Provide

The "As of" Date Notification Letter will request the following for each reported portfolio in advance of the CVR:

- A Qualifying Collateral Report (QCR) or specific loan listing for the "as of" date

#### "As of" Dates and QCRs

Please note that the "as of" date selected for your CVR may require you to prepare and submit a QCR outside your normal reporting frequency.

- A trial balance (Excel loan listing) that ties exactly to the net eligible line on your QCR or loan listings
- A completed Preliminary Profile Questionnaire (PPQ)

The Bank will provide you with specific due dates for the requested information. It is important that you meet the due dates so that the Bank is able to get a sample loan listing back to you so that you have ample time to prepare for the review.

The QCRs should be submitted online via FHLBAccess. The loan trial balances should be submitted via secure email to the Collateral Coordinator identified in the “As of” Date Notification Letter. Secure email is available to transmit files or files may be uploaded securely via FHLBAccess.

## Preparing the QCR

It is important that you prepare a QCR that coincides with the “as of” date of the review. Each QCR acts as a certification to the Bank that the accompanying loan trial balance contains only eligible loans. The CVR samples are selected from the loan trial balance you provide.

Certain shareholders are not required to submit a QCR for collateral reporting purposes. If your institution has special reporting requirements, the Bank will select CVR loan samples for your institution from the loan listing submitted for the “as of” date.

### For more information

For more information on preparing the QCR, see the Qualifying Collateral Report (QCR) section of this guide.

**REMEMBER:** If you click on hyperlinked text and then want to return to the previous page, press the **ALT and Left Arrow** keys on your keyboard to navigate back.

## Preparing the Loan Trial Balance

The loan trial balance should include only eligible loans. The Bank will reconcile the loan trial balance to the loan collateral reported on the QCR.

The information required for the loan trial balance includes:

- Loan number
- Current UPB
- Loan type code
- Origination date

### Borrower Names

Borrower names should not be included on the loan trial balance that you submit in preparation for your CVR.

## Preparation Tips for the QCR and Loan Trial Balance Documents

Please refer to the Trial Balance Preparation/Loan Type Codes document for detailed instructions and information concerning the loan type codes. This document is also provided as an attachment to the "As of" Date Notification Letter that you will receive from your assigned Collateral Coordinator prior to the review. Every loan reported on the loan trial balance must have a loan type code.

The Bank also provides an Excel template for the loan trial balance as an attachment to the "As of" Date Notification Letter. Use of this template is recommended. If you elect not to use the loan trial balance template provided, the loan trial balance must be submitted in an Excel spreadsheet. The loan trial balance should not contain any special formatting such as subtotals or other formulas, or any additional columns of data beyond those specified.

When preparing your QCR and loan trial balance for the CVR, you should keep in mind the following requirements:

- The net eligible line (Section III) on the QCR should match the total loan balance on the loan trial balance
- Loan codes must be provided for each loan or the loan trial balance will be rejected
- Persons preparing the QCR and loan trial balance should collaborate to ensure that only eligible loans
  are reported

## QCR and Trial Balance Reconciliation Examples

The next few pages show examples of a QCR and trial balance reconciliation for the residential, HELOC/HEL, and commercial portfolios.

## Example: Residential QCR, Page 1

**QCR Information**

QCR Type: Residential

Balances as of: 12/31/2016

| | Number of loans | Unpaid Principal Balance (Omit Cents) |
|---|---|---|
| **I. Total 1-4 Family First Mortgage Loans:** | 45 | 5,671,958 |
| **II. Subtractions (Ineligible/Non-qualifying Loans):** | | |
| a. Loans identified as held for sale: | 0 | 0 |
| b. Loans greater than 30 days delinquent: | 0 | 0 |
| c. Loans classified as sub-standard, doubtful or loss (either internally or by a regulatory entity): | 0 | 0 |
| d. Loans to employees, officers, directors, attorneys or agents of FHLBank Atlanta or Member: | 0 | 0 |
| e. Loans pledged to secure other borrowings: | 0 | 0 |
| f. Participated loans: | 0 | 0 |
| g. Loans held by a third-party: | 0 | 0 |
| h. Loans with document deficiencies: | 0 | 0 |
| i. Loans defined as ineligible under the Bank's "Guidelines to Promote Responsible Lending": | 0 | 0 |
| j. Loans not complying with any other provision of the Bank's Credit and Collateral policies: | 0 | 0 |
| **Total Subtractions:** | 0 | 0 |
| **III. Net Eligible 1-4 Family First Mortgage Loans:** | 45 | 5,671,958 |
| **Market Value %:** | | 93.08 % |
| **IV. Market Value $:** | | 5,279,459 |
| **Collateral Verification Review Extrapolation Factor:** | | 2 % |
| **V. Adjusted Eligible 1-4 Family First Mortgage Loans:** | | 5,173,869 |
| **Collateral Value %:** | | 100 % |
| **VI. Lendable Collateral Value of Residential 1-4 Family First Mortgage Loans:** | | 5,173,869 |

Net Eligible 1-4 Family First Mortgage Loans

Line item III (1-4 Family First Mortgage Loans) must reconcile to the total current unpaid principal balance on the trial balance.

(See trial balance example on following page)

## Example: Residential Trial Balance

| LOAN ID NUMBER | CURRENT UNPAID PRINCIPAL BALANCE | | LOAN TYPE CODE | ORIGINATION DATE | ADDRESS | CITY | STATE | ZIP | USDA FLAG |
|---|---|---|---|---|---|---|---|---|---|
| 1 | $ | 51,178.48 | 30 | 02/24/12 | 123 ABC Street | Anywhere Town | GA | 30029 | N |
| 2 | $ | 9,435.77 | 30 | 08/30/12 | 124 ABC Street | Anywhere Town | GA | 30030 | N |
| 3 | $ | 288,408.15 | 55 | 06/06/14 | 125 ABC Street | Anywhere Town | GA | 30031 | N |
| 4 | $ | 26,955.03 | 55 | 12/24/12 | 126 ABC Street | Anywhere Town | GA | 30032 | N |
| 5 | $ | 62,486.00 | 30 | 06/17/13 | 127 ABC Street | Anywhere Town | GA | 30033 | N |
| 6 | $ | 87,420.37 | 30 | 07/26/07 | 128 ABC Street | Anywhere Town | GA | 30034 | N |
| 7 | $ | 66,052.80 | 30 | 11/05/07 | 129 ABC Street | Anywhere Town | GA | 30035 | N |
| 8 | $ | 27,943.36 | 30 | 01/25/11 | 130 ABC Street | Anywhere Town | GA | 30036 | N |
| 9 | $ | 89,052.78 | 30 | 03/26/08 | 131 ABC Street | Anywhere Town | GA | 30037 | N |
| 10 | $ | 96,659.20 | 30 | 04/16/08 | 132 ABC Street | Anywhere Town | GA | 30038 | N |
| 11 | $ | 313,352.90 | 30 | 05/30/13 | 133 ABC Street | Anywhere Town | GA | 30039 | N |
| 12 | $ | 60,949.21 | 30 | 07/07/08 | 134 ABC Street | Anywhere Town | GA | 30040 | N |
| 13 | $ | 83,388.34 | 30 | 09/04/08 | 135 ABC Street | Anywhere Town | GA | 30041 | Y |
| 14 | $ | 32,141.59 | 30 | 07/25/08 | 136 ABC Street | Anywhere Town | GA | 30042 | N |
| 15 | $ | 148,155.15 | 30 | 12/17/08 | 137 ABC Street | Anywhere Town | GA | 30043 | N |
| 16 | $ | 171,124.76 | 30 | 12/13/13 | 138 ABC Street | Anywhere Town | GA | 30044 | N |
| 17 | $ | 175,405.54 | 30 | 12/30/08 | 139 ABC Street | Anywhere Town | GA | 30045 | N |
| 18 | $ | 59,170.45 | 30 | 05/25/12 | 140 ABC Street | Anywhere Town | GA | 30046 | N |
| 19 | $ | [illegible] | [illegible] | [illegible] | [illegible] Street | Anywhere Town | GA | 30047 | [illegible] |
| [illegible] | [illegible] | [illegible] | 30 | 05/23/08 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | $ | 46,336.58 | 30 | 05/08/09 | 159 ABC Street | [illegible] | [illegible] | [illegible] | N |
| 38 | $ | 81,623.05 | 30 | 11/30/07 | 160 ABC Street | Anywhere Town | GA | 30066 | N |
| 39 | $ | 238,386.11 | 30 | 01/30/08 | 161 ABC Street | Anywhere Town | GA | 30067 | N |
| 40 | $ | 62,278.16 | 30 | 05/01/09 | 162 ABC Street | Anywhere Town | GA | 30068 | N |
| 41 | $ | 54,478.95 | 55 | 06/29/07 | 163 ABC Street | Anywhere Town | GA | 30069 | N |
| 42 | $ | 66,013.71 | 30 | 11/30/07 | 164 ABC Street | Anywhere Town | GA | 30070 | N |
| 43 | $ | 118,195.04 | 30 | 10/14/09 | 165 ABC Street | Anywhere Town | GA | 30071 | N |
| 44 | $ | 110,000.00 | 30 | 04/03/15 | 166 ABC Street | Anywhere Town | GA | 30072 | N |
| 45 | $ | 234,380.00 | 55 | 11/29/07 | 167 ABC Street | Anywhere Town | GA | 30073 | N |
| | | | | | | | | | |
| 45 | $ | 5,671,957.77 | | | | | | | |

Total current unpaid principal balance on trial balance must reconcile to Line item III (Net Eligible 1-4 Family First Mortgage Loans) on page 1 of QCR.

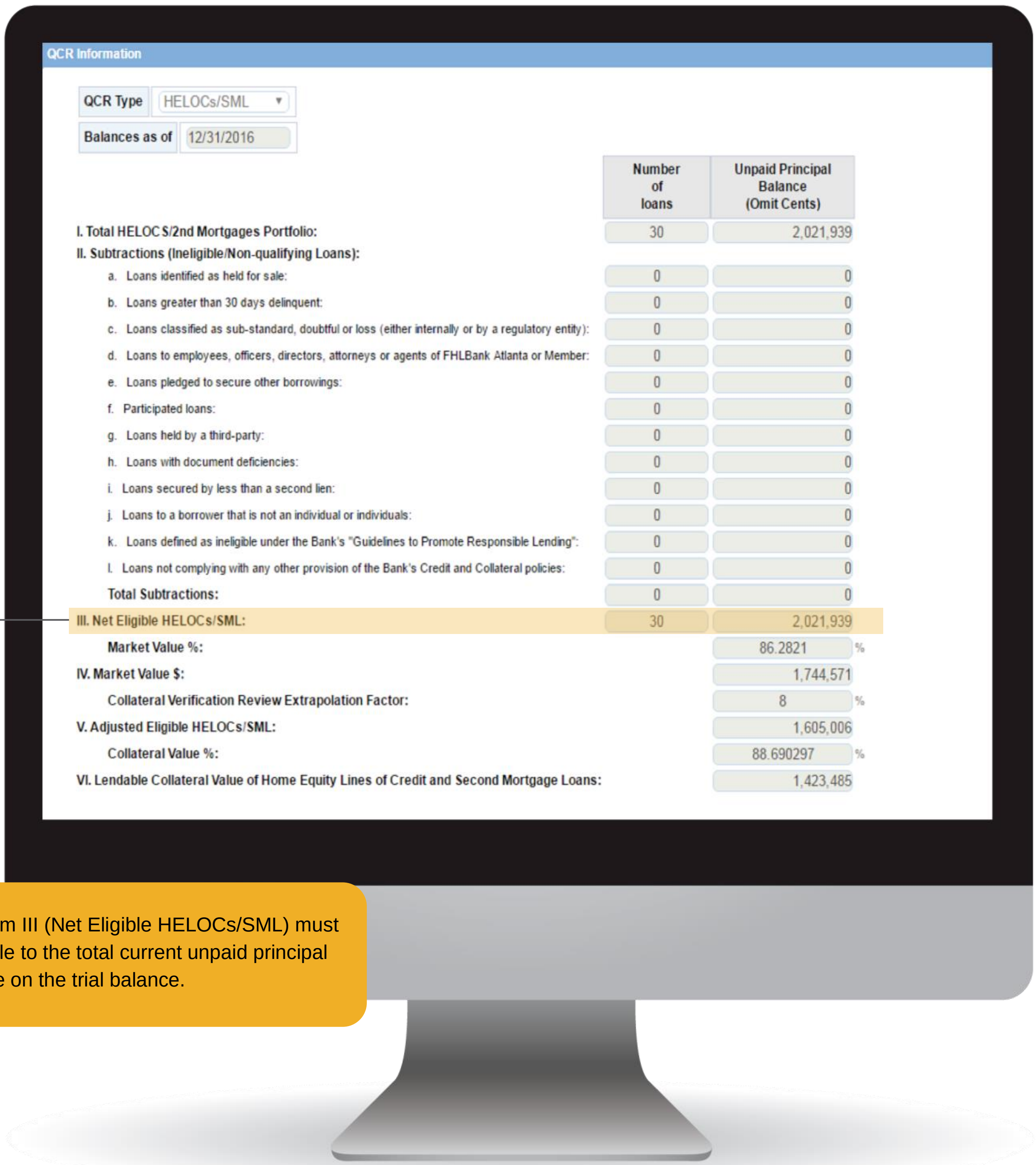
## Example: Residential QCR, Page 2

| Categories | Percentage of Portfolio | |
|---|---|---|
| **Asset Classification** | **Required** | |
| Standard - Not Subprime | 88 | % |
| Standard - Subprime before 07/10/07 | | % |
| Standard - Subprime on/after 07/10/07 | | % |
| IO ARM/Hybrid Not Subprime before 07/10/07 | | % |
| IO ARM/Hybrid Not Subprime o/a 07/10/07 | | % |
| IO ARM/Hybrid Subprime before 07/10/07 | | % |
| IO ARM/Hybrid Subprime on/after 07/10/07 | | % |
| IO Fixed Not Subprime before 07/10/07 | | % |
| IO Fixed Not Subprime on/after 07/10/07 | | % |
| IO Fixed Subprime before 07/10/07 | | % |
| IO Fixed Subprime on/after 07/10/07 | | % |
| NegAM/POA Not Subprime before 07/10/07 | | % |
| NegAM/POA Not Subprime on/after 07/10/07 | | % |
| NegAM/POA Subprime before 07/10/07 | | % |
| NegAM/POA Subprime on/after 07/10/07 | | % |
| Other Non-Trad before 07/10/07 | 1 | % |
| Other Non-Trad on/after 07/10/07 | 11 | % |
| Other Non-Trad & Subprime before 07/10/07 | | % |
| Other Non-Trad and Subprime o/a 07/10/07 | | % |

Loan type codes on trial balance must match asset classification on page 2 of the QCR. Overall percentages must also agree with the percentages reported on the QCR

| LOAN ID NUMBER | CURRENT UNPAID PRINCIPAL BALANCE | | LOAN TYPE CODE | ORIGINATION DATE |
|---|---|---|---|---|
| 1 | $ | 51,178.48 | 30 | 02/24/12 |
| 2 | $ | 9,435.77 | 30 | 08/30/12 |
| 3 | $ | 288,408.15 | 55 | 06/06/14 |
| 4 | $ | 26,955.03 | 55 | 12/24/12 |
| 5 | $ | 62,486.00 | 30 | 06/17/13 |
| 6 | $ | 87,420.37 | 30 | 07/26/07 |

## Example: HELOC/HEL QCR, Page 1



QCR Information

QCR Type: HELOCs/SML

Balances as of: 12/31/2016

| | Number of loans | Unpaid Principal Balance (Omit Cents) | |
|---|---|---|---|
| I. Total HELOC S/2nd Mortgages Portfolio: | 30 | 2,021,939 | |
| II. Subtractions (Ineligible/Non-qualifying Loans): | | | |
| a. Loans identified as held for sale: | 0 | 0 | |
| b. Loans greater than 30 days delinquent: | 0 | 0 | |
| c. Loans classified as sub-standard, doubtful or loss (either internally or by a regulatory entity): | 0 | 0 | |
| d. Loans to employees, officers, directors, attorneys or agents of FHLBank Atlanta or Member: | 0 | 0 | |
| e. Loans pledged to secure other borrowings: | 0 | 0 | |
| f. Participated loans: | 0 | 0 | |
| g. Loans held by a third-party: | 0 | 0 | |
| h. Loans with document deficiencies: | 0 | 0 | |
| i. Loans secured by less than a second lien: | 0 | 0 | |
| j. Loans to a borrower that is not an individual or individuals: | 0 | 0 | |
| k. Loans defined as ineligible under the Bank's "Guidelines to Promote Responsible Lending": | 0 | 0 | |
| l. Loans not complying with any other provision of the Bank's Credit and Collateral policies: | 0 | 0 | |
| Total Subtractions: | 0 | 0 | |
| III. Net Eligible HELOCs/SML: | 30 | 2,021,939 | |
| Market Value %: | | 86.2821 | % |
| IV. Market Value $: | | 1,744,571 | |
| Collateral Verification Review Extrapolation Factor: | | 8 | % |
| V. Adjusted Eligible HELOCs/SML: | | 1,605,006 | |
| Collateral Value %: | | 88.690297 | % |
| VI. Lendable Collateral Value of Home Equity Lines of Credit and Second Mortgage Loans: | | 1,423,485 | |

Net Eligible HELOCs/ SML

Line item III (Net Eligible HELOCs/SML) must reconcile to the total current unpaid principal balance on the trial balance.

## Example: HELOC/HEL Trial Balance

| LOAN ID NUMBER | CURRENT UNPAID PRINCIPAL BALANCE | | LOAN TYPE CODE | ORIGINATION DATE | CLTV | ADDRESS | CITY | STATE | ZIP |
|---|---|---|---|---|---|---|---|---|---|
| 1 | $ | 3,618.51 | 147 | 04/08/2008 | 0.24679 | 123 ABC Street | Anywhere Town | GA | 30028 |
| 2 | $ | 38,306.23 | 147 | 05/21/2009 | 0.28169 | 124 ABC Street | Anywhere Town | GA | 30029 |
| 3 | $ | 9,705.84 | 147 | 03/26/2013 | 0.13076 | 125 ABC Street | Anywhere Town | GA | 30030 |
| 4 | $ | 19,587.85 | 147 | 03/27/2012 | 0.25806 | 126 ABC Street | Anywhere Town | GA | 30031 |
| 5 | $ | 44,618.09 | 147 | 05/30/2008 | 0.50000 | 127 ABC Street | Anywhere Town | GA | 30032 |
| 6 | $ | 323,029.16 | 147 | 02/28/2008 | 0.35714 | 128 ABC Street | Anywhere Town | GA | 30033 |
| 7 | $ | 79,988.64 | 148 | 04/30/2008 | 0.63898 | 129 ABC Street | Anywhere Town | GA | 30034 |
| 8 | $ | 85,796.97 | 148 | 06/13/2013 | 0.75758 | 130 ABC Street | Anywhere Town | GA | 30035 |
| 9 | $ | 78,675.92 | 148 | 07/11/2008 | 0.80000 | 131 ABC Street | Anywhere Town | GA | 30036 |
| 10 | $ | 230,061.98 | 148 | 05/13/2006 | 0.76667 | 132 ABC Street | Anywhere Town | GA | 30037 |
| 11 | $ | 108,489.56 | 150 | 04/08/2013 | 0.34921 | 133 ABC Street | Anywhere Town | GA | 30038 |
| 12 | $ | 150,141.37 | 151 | 06/11/2008 | 0.69767 | 134 ABC Street | Anywhere Town | GA | 30039 |
| 13 | $ | 5,994.70 | 153 | 03/04/2009 | 0.06410 | 135 ABC Street | Anywhere Town | GA | 30040 |
| 14 | $ | 15,568.92 | 153 | 12/29/2011 | 0.09915 | 136 ABC Street | Anywhere Town | GA | 30041 |
| 15 | $ | 35,276.89 | 153 | 05/07/2008 | 0.11364 | 137 ABC Street | Anywhere Town | GA | 30042 |
| 16 | $ | 26,498.49 | 153 | 02/20/2007 | 0.43369 | 138 ABC Street | Anywhere Town | GA | 30043 |
| 17 | $ | 4,523.57 | 154 | 10/30/2012 | 0.74390 | 139 ABC Street | Anywhere Town | GA | 30044 |
| 18 | $ | 299,859.69 | 154 | 03/18/2008 | 0.79208 | 140 ABC Street | Anywhere Town | GA | 30045 |
| 19 | $ | 20,253.07 | 154 | 12/24/2009 | 0.79773 | 141 ABC Street | Anywhere Town | GA | 30046 |
| 20 | $ | 25,899.97 | 155 | 05/13/2013 | 0.86544 | 142 ABC Street | Anywhere Town | GA | 30047 |
| 21 | $ | 95,661.66 | 155 | 03/08/2010 | 0.94327 | 143 ABC Street | Anywhere Town | GA | 30048 |
| 22 | $ | 26,357.24 | 155 | 06/26/2007 | 0.86538 | 144 ABC Street | Anywhere Town | GA | 30049 |
| 23 | $ | 55,485.27 | 155 | 06/19/2008 | 0.94333 | 145 ABC Street | Anywhere Town | GA | 30050 |
| 24 | $ | 32,397.21 | 155 | 10/15/2012 | 0.99000 | 146 ABC Street | Anywhere Town | GA | 30051 |
| 25 | $ | 98,952.27 | 156 | 03/28/2008 | 0.14706 | 147 ABC Street | Anywhere Town | GA | 30052 |
| 26 | $ | 18,351.13 | 156 | 11/30/2009 | 0.41429 | 148 ABC Street | Anywhere Town | GA | 30053 |
| 27 | $ | 19,014.07 | 157 | 05/01/2006 | 0.62784 | 149 ABC Street | Anywhere Town | GA | 30054 |
| 28 | $ | 9,689.75 | 157 | 05/15/2009 | 0.67806 | 150 ABC Street | Anywhere Town | GA | 30055 |
| 29 | $ | 17,087.01 | 157 | 03/18/2009 | 0.75768 | 151 ABC Street | Anywhere Town | GA | 30056 |
| 30 | $ | 43,047.73 | 158 | 03/20/2008 | 0.81304 | 152 ABC Street | Anywhere Town | GA | 30057 |
| | | | | | | | | | |
| **30** | **$** | **2,021,938.76** | | | | | | | |

Total current unpaid principal balance on trial balance must reconcile to Line item III (Net Eligible HELOC/SML) on page 1 of QCR.

## Example: HELOC/HEL QCR, Page 2

| Categories | Percentage of Portfolio | |
|---|---|---|
| **Asset Classification** | **Required** | |
| LOCs;First Lien Not Subprime | 45 | % |
| LOCs;First Lien Subprime bef 7/10/07 | | % |
| LOCs;First Lien Subprime o/a 7/10/07 | 12 | % |
| LOCs;Second Lien Not Subprime | 32 | % |
| LOCs;Second Lien Subprime bef 7/10/07 | 1 | % |
| LOCs;Second Lien Subprime o/a 7/10/07 | 10 | % |
| LOANS;First Lien Not Subprime | | % |
| LOANS;First Lien Subprime bef 7/10/07 | | % |
| LOANS;First Lien Subprime o/a 7/10/07 | | % |
| LOANS;Second Lien Not Subprime | | % |
| LOANS;Second Lien Subprime bef 7/10/07 | | % |
| LOANS;Second Lien Subprime o/a 7/10/07 | | % |
| **Combined Loan to Value** | **Required** | |
| CLTV less than 60% | 37 | % |
| CLTV greater than or equal to 60% and less than or equal to 80% | 49 | % |
| CLTV greater than 80% | 14 | % |

Loan type codes on trial balance must match asset classification on page 2 of the QCR. Overall percentages must also agree with the percentages reported on the QCR.

| LOAN ID NUMBER | CURRENT UNPAID PRINCIPAL BALANCE | | LOAN TYPE CODE | ORIGINATION DATE | CLTV |
|---|---|---|---|---|---|
| 1 | $ | 3,618.51 | 147 | 04/08/2008 | 0.24679 |
| 2 | $ | 38,306.23 | 147 | 05/21/2009 | 0.28169 |
| 3 | $ | 9,705.84 | 147 | 03/26/2013 | 0.13076 |
| 4 | $ | 19,587.85 | 147 | 03/27/2012 | 0.25806 |
| 5 | $ | 44,618.09 | 147 | 05/30/2008 | 0.50000 |
| 6 | $ | 323,029.16 | 147 | 02/28/2008 | 0.35714 |
| 7 | $ | 79,988.64 | 148 | 04/30/2008 | 0.63898 |
| 8 | $ | 85,796.97 | 148 | 06/13/2013 | 0.75758 |

## Example: Commercial QCR, Page 1

QCR Information

QCR Type: Commercial Real Estate

Balances as of: 12/31/2016

| | Number of loans | Unpaid Principal Balance (Omit Cents) |
|---|---|---|
| I. Total Commercial Real Estate Portfolio: | 16 | 7,712,546 |
| II. Subtractions (Ineligible/Non-qualifying Loans): | | |
| a. Loans identified as held for sale: | 0 | 0 |
| b. Loans greater than 30 days delinquent: | 0 | 0 |
| c. Loans classified as sub-standard, doubtful or loss (either internally or by a regulatory entity): | 0 | 0 |
| d. Loans to employees, officers, directors, attorneys or agents of FHLBank Atlanta or Member: | 0 | 0 |
| e. Loans pledged to secure other borrowings: | 0 | 0 |
| f. Majority Participated loans: | 0 | 0 |
| g. Loans held by a third-party: | 0 | 0 |
| h. Loans with document deficiencies: | 0 | 0 |
| i. Loans secured by liens on Special Purpose Properties: | 0 | 0 |
| j. Loans not complying with any other provision of the Bank's Credit and Collateral policies: | 0 | 0 |
| Total Subtractions: | 0 | 0 |
| III. Net Eligible Commercial Real Estate Loans: | 16 | 7,712,546 |
| Market Value %: | | 98.5764 % |
| IV. Market Value $: | | 7,602,750 |
| Collateral Verification Review Extrapolation Factor: | | 0 % |
| V. Adjusted Eligible Commercial Real Estate Loans: | | 7,602,750 |
| Collateral Value %: | | 60.816287 % |
| VI. Lendable Collateral Value of Commercial Real Estate Loans: | | 4,623,710 |

Net Eligible Commercial Real Estate

Line item III (Net Eligible Commercial Real Estate Loans) must reconcile to the total current unpaid principal balance on the trial balance. (See trial balance example on following page)

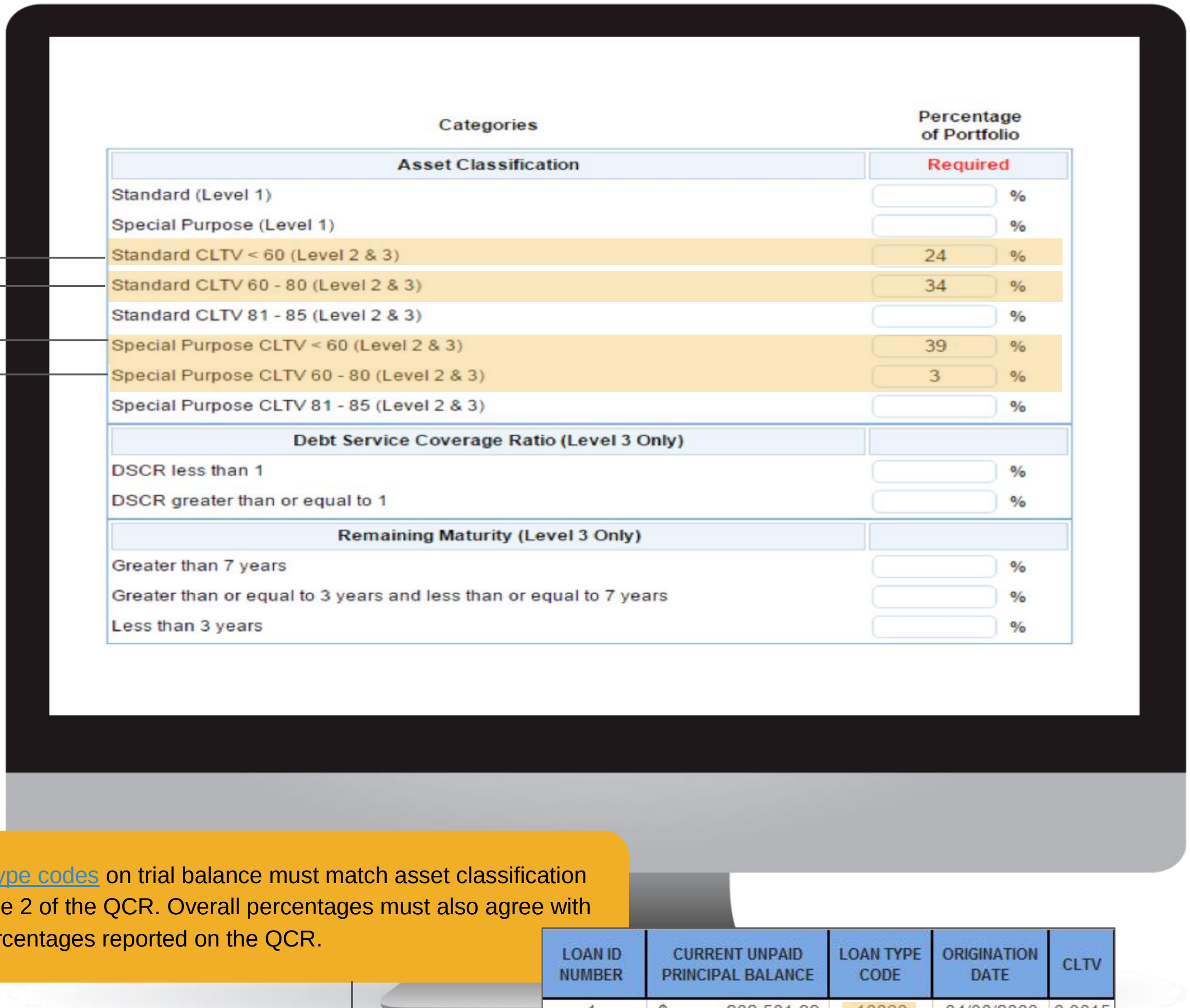
Please note that this commercial example can also be used to demonstrate reconciliation of a multifamily and farmland QCR and trial balance. Please refer to the listing of multifamily and farmland loan type codes when preparing your trial balance.

## Example: Commercial Trial Balance

| LOAN ID NUMBER | CURRENT UNPAID PRINCIPAL BALANCE | LOAN TYPE CODE | ORIGINATION DATE | CLTV | ADDRESS | CITY | STATE | ZIP | USDA FLAG |
|---|---|---|---|---|---|---|---|---|---|
| 1 | $ 202,501.88 | 10060 | 04/30/2003 | 0.3015 | 123 ABC Street | Anywhere Town | GA | 30015 | N |
| 2 | $ 448,015.82 | 10060 | 11/11/2005 | 0.5556 | 124 ABC Street | Anywhere Town | GA | 30016 | N |
| 3 | $ 539,470.30 | 10060 | 02/27/2006 | 0.0122 | 125 ABC Street | Anywhere Town | GA | 30017 | N |
| 4 | $ 439,061.77 | 10060 | 11/07/2014 | 0.5147 | 126 ABC Street | Anywhere Town | GA | 30018 | N |
| 5 | $ 229,510.87 | 10060 | 02/08/2007 | 0.5912 | 127 ABC Street | Anywhere Town | GA | 30019 | N |
| 6 | $ 411,913.23 | 10080 | 10/15/2004 | 0.7576 | 128 ABC Street | Anywhere Town | GA | 30020 | N |
| 7 | $ 235,106.17 | 10080 | 02/03/2006 | 0.7916 | 129 ABC Street | Anywhere Town | GA | 30021 | N |
| 8 | $ 357,051.44 | 10080 | 08/25/2006 | 0.6015 | 130 ABC Street | Anywhere Town | GA | 30022 | N |
| 9 | $ 299,692.81 | 10080 | 11/01/2006 | 0.7157 | 131 ABC Street | Anywhere Town | GA | 30023 | N |
| 10 | $ 345,446.43 | 10080 | 08/13/2007 | 0.6000 | 132 ABC Street | Anywhere Town | GA | 30024 | N |
| 11 | $ 933,911.56 | 10080 | 11/17/2008 | 0.7531 | 133 ABC Street | Anywhere Town | GA | 30025 | N |
| 12 | $ 298,279.84 | 10160 | 10/24/2007 | 0.5900 | 134 ABC Street | Anywhere Town | GA | 30026 | N |
| 13 | $ 1,150,617.34 | 10160 | 10/12/2007 | 0.2525 | 135 ABC Street | Anywhere Town | GA | 30027 | N |
| 14 | $ 1,108,254.97 | 10160 | 04/01/2013 | 0.1000 | 136 ABC Street | Anywhere Town | GA | 30028 | N |
| 15 | $ 462,509.95 | 10160 | 11/05/2014 | 0.5556 | 137 ABC Street | Anywhere Town | GA | 30029 | N |
| 16 | $ 251,201.16 | 10180 | 09/16/2005 | 0.8000 | 138 ABC Street | Anywhere Town | GA | 30030 | N |
| | | | | | | | | | |
| **16** | **$ 7,712,545.54** | | | | | | | | |

Total current unpaid principal balance on trial balance must reconcile to Line Item III (Net Eligible Commercial Real Estate Loans) on page 1 of the QCR.

## Example: Commercial QCR, Page 2



| Categories | Percentage of Portfolio | |
|---|---|---|
| **Asset Classification** | **Required** | |
| Standard (Level 1) | | % |
| Special Purpose (Level 1) | | % |
| Standard CLTV < 60 (Level 2 & 3) | 24 | % |
| Standard CLTV 60 - 80 (Level 2 & 3) | 34 | % |
| Standard CLTV 81 - 85 (Level 2 & 3) | | % |
| Special Purpose CLTV < 60 (Level 2 & 3) | 39 | % |
| Special Purpose CLTV 60 - 80 (Level 2 & 3) | 3 | % |
| Special Purpose CLTV 81 - 85 (Level 2 & 3) | | % |
| **Debt Service Coverage Ratio (Level 3 Only)** | | |
| DSCR less than 1 | | % |
| DSCR greater than or equal to 1 | | % |
| **Remaining Maturity (Level 3 Only)** | | |
| Greater than 7 years | | % |
| Greater than or equal to 3 years and less than or equal to 7 years | | % |
| Less than 3 years | | % |

Loan type codes on trial balance must match asset classification on page 2 of the QCR. Overall percentages must also agree with the percentages reported on the QCR.

| LOAN ID NUMBER | CURRENT UNPAID PRINCIPAL BALANCE | | LOAN TYPE CODE | ORIGINATION DATE | CLTV |
|---|---|---|---|---|---|
| 1 | $ | 202,501.88 | 10060 | 04/30/2003 | 0.3015 |
| 2 | $ | 448,015.82 | 10060 | 11/11/2005 | 0.5556 |
| 3 | $ | 539,470.30 | 10060 | 02/27/2006 | 0.0122 |
| 4 | $ | 439,061.77 | 10060 | 11/07/2014 | 0.5147 |
| 5 | $ | 229,510.87 | 10060 | 02/08/2007 | 0.5912 |
| 6 | $ | 411,913.23 | 10080 | 10/15/2004 | 0.7576 |
| 7 | $ | 235,106.17 | 10080 | 02/03/2006 | 0.7916 |
| 8 | $ | 357,051.44 | 10080 | 08/25/2006 | 0.6015 |
| 9 | $ | 299,692.81 | 10080 | 11/01/2006 | 0.7157 |

## Step 3: Loan Sample Selection and Notification

The Bank selects random samples from the loan trial balance you submitted for each reported portfolio. Loans are selected using a random sample generator. The typical CVR sample consists of 50 sample loans and 10 replacement loans. If you report less than 50 loans in a portfolio, then all loans in the portfolio will be reviewed.

Replacement loans are used only if a sample loan is paid off between the "as of" date and the review date. If a sample loan is paid off after the "as of" date but before the start of the CVR, the Collateral Analyst conducting the CVR will select a replacement loan file to review in lieu of the paid-off sample loan. For loans paid off after the "as of" date, but before the start of the CVR, you must provide evidence of the payoff.

### Acceptable Documentation to Evidence Loan Payoff

Evidence of a loan payoff can be in the form of a system screen shot reflecting the date of the payoff as well as zero remaining credit availability.

Upon receipt and reconciliation of the QCR and loan trial balance, the assigned Collateral Coordinator will email you a Sample Notification Letter including the loans that have been selected in the CVR sample.

## Step 4: Preparing Loan Files

Once you receive the Sample Notification Letter, you should ensure that all loan files are available for each selected loan that will be reviewed.

### Special Note about Imaging Systems

If your loan files are imaged, the loans can be reviewed on the imaging system; however, hard copy original notes, and any applicable modifications to the note, must be available for review during the CVR. During the CVR, an imaging station or desktop must be provided for each reviewer to view imaged loan documents.

All applicable items on the Loan Document Checklists should be available on the first day of the review. The majority of the information requested on the Loan Document Checklists will be contained in the credit and collateral files. You will also need to provide supplemental data such as loan servicing screen prints, a schedule of classified loans, and a schedule of employee loans for review during the CVR. Occasionally, we may need you to provide additional items.

Advance preparation is critical to a smooth review. An important part of the preparation is ensuring that you are providing all required loan documentation in the loan files on or before the "as of" date. To assist you with preparing the loan files for the CVR, please refer to the Strategies for a Successful CVR section of this guide, which offers you additional preparation tips.

## Step 5: Onsite Review and Discussions with Shareholder Management

Upon arrival at your location, the Bank's CVR team will need work space in which to perform the review, as well as immediate access to all requested loan files, reports, etc. All loans selected in the CVR sample will be reviewed.

The Bank's Collateral Analyst will meet with you to discuss:

- Your responses to the Preliminary Profile Questionnaire (PPQ)
- Your underwriting policies and procedures, and any noted deviations
- Your quality control policies and procedures

The Bank's Collateral Analyst may also speak with you to discuss any exceptions noted during the review to determine if the exceptions can be cleared while the review team is onsite. The daily results will be shared with you throughout the review.

### What is an Exception?

An exception is a deficiency that would make a loan ineligible.

Before leaving, the Bank's Collateral Analyst will conduct an exit meeting to provide you with the *unofficial* preliminary results, discuss the next steps in the CVR process, and offer you an opportunity to ask questions.

Please make appropriate staff available for these discussions. Scheduling in advance is recommended, especially if your staff must travel from a different location or if a conference call is necessary.

## Step 6: Preliminary Results Notification

Within days of the completion of the onsite portion of the review, the Bank's Collateral Coordinator will send you an email containing the *official* preliminary report. The report discloses the initial exception rate for each portfolio.

### How the Exception Rate Is Calculated

The exception rate is calculated as the number of loans with exceptions divided by the number of loans in the sample. For example: if there were two loans with exceptions in a 50-loan sample, the calculation would be 2/50 = 4%.

The final exception rate translates to your institution's final extrapolation rate for each portfolio reviewed.

A loan may be ineligible for multiple reasons – and have multiple exceptions – but regardless of the number of exceptions, the ineligible loan only counts as one exception in determining the exception rate.

The report and related correspondence provide details on each exception and what documentation is needed to resolve the exception. Upon receiving the official preliminary report, you have 10 business days to resolve any outstanding exceptions.

## Step 7: Follow-up Documentation and Exception Clearing

You can provide additional documentation during the follow up period to resolve preliminary exceptions. The additional documentation necessary to resolve each outstanding exception will be detailed on the official preliminary report.

Documents may be sent by secure email or overnight delivery, or may be uploaded via FHLBAccess anytime within the 10-day period. For any documents submitted to resolve exceptions, please provide the loan number associated with the documentation to cure the exception. A loan with multiple exceptions will remain ineligible unless necessary documentation can be provided to clear all exceptions on the loan. Please wait until you receive your official preliminary results letter from your assigned Collateral Coordinator to send in your follow up documentation. Follow up documentation on all outstanding exceptions should be sent in at the same time.

For *each* exception noted during the review, if you cannot provide the additional documentation necessary to the clear the exception, you must provide written acknowledgment that you concur with the exception.

Please keep in mind that the review will be automatically closed at the end of the 10-day follow up period unless you notify the Bank. If additional time is needed to provide the documentation necessary to resolve an exception, please contact your assigned Collateral Coordinator or Collateral Relationship Specialist.

## Step 8: Final Results Notification

Once the Bank receives the additional documentation you provide to cure any exceptions, the Collateral Coordinator will review the submitted documents to determine if they are sufficient to clear the exceptions. Unaddressed or unresolved exceptions become final exceptions and are included in the final exception rate. After the Collateral Coordinator has made the appropriate adjustments for exceptions cleared, the results are then reviewed and approved by a Collateral Relationship Specialist.

Once the CVR results are approved, the Collateral Coordinator will send you an email containing the final results of the review. Descriptions of the final exceptions are provided for each remaining exception on the ineligible loans.

The final report details the final exception rate and the extrapolation rate for each portfolio reviewed. You should remove all ineligible loans identified during the review, plus any other loans with the same characteristics, from your QCR.

## Extrapolation Rate

The extrapolation rate is the same as the final exception rate. Each portfolio reviewed will have its own extrapolation rate. The extrapolation rate will be applied when the CVR is approved and will impact your LCV immediately. The new extrapolation rate remains in effect until another CVR is performed on the collateral.

| How the Final Extrapolation Rate Affects Lendable Collateral Value | |
|---|---|
| Net Eligible UPB | $40,000,000 |
| x Market Value Percentage | 98.13% |
| Equals Market Value $ | $39,252,000 |
| x Lendable Collateral Value % | 77.00% |
| Equals LCV Before Extrapolation | $30,224,040 |
| Less Extrapolation of 4% | ($1,208,962) |
| Equals Total Lendable Collateral Value (LCV) | $29,015,078 |

## Quality Control Reviews

The Bank performs quality control on the CVR process to ensure reviewer accuracy. As a part of this diligence, selected CVRs will undergo a quality control review. If the CVR performed for your institution is selected for a quality control review, you will be asked to provide copies of the documentation reviewed by the CVR team during the review. The quality control review will be limited to a maximum of five loans. You will be notified during the CVR by a member of the quality control staff if your CVR has been selected and will be given further instructions on how to submit the requested documentation.

## Strategies for a Successful CVR

There are a number of strategies you can use to help ensure a successful CVR. In this section we will discuss the importance of the "as of" date, review the most common CVR exceptions, and also provide additional helpful tips to ensure a smooth CVR.

### Importance of the "As Of" Date

The CVR "as of" date is equivalent to the test date for all loan documentation required for eligibility purposes. With limited exceptions, all required documentation should exist in the loan file on or before the "as of" date.

To assist you with preparing the loan files for the CVR, please note the following limited exceptions to this requirement. The Bank can accept the documents listed below *after* the "as of" date if these documents *did not exist on or before the CVR "as of" date*:

- Proof of completion of improvements (e.g., loan officer memorandum certifying completion)
- Flood determination form – If the property is in a flood zone, current and adequate flood insurance coverage is required to be in effect on the "as of" date
- Missing property description from the valuation document provided during the CVR
- Lien searches to confirm first or second lien position for HELOCs/HELs with line commitments < $250,000
- Final title insurance policies, final attorney opinions regarding lien position, and recorded mortgages received within 12 months of the origination date of the loan, but after the "as of" date

### Top Five CVR Exception Types

To assist you with recognizing possible eligibility issues in the loan portfolios you report to the Bank, we have identified the most common exception types discovered during the CVR process. Understanding where the areas of highest potential for loan exceptions are may help you in your loan scrubbing efforts.

The five most common loan eligibility exception types identified during the CVR process are:

- Ineligible LTV ratio
- Ineligible property type
- Missing or unsatisfactory lien verification
- Mobile/manufactured homes not treated as real property
- Missing original note or modification

### Accurately Reporting the Unpaid Principal Balance

The accurate unpaid principal balance for each loan should be reported on the effective date of reporting. Misreported or overstated UPB's that include items such as accrued interest, fees, and accounting charges will be treated as loan exceptions during the CVR.

## Ineligible LTV Ratio

The LTV requirements for the five portfolios of loan collateral include:

| Collateral Category | Maximum LTV | LTV Requirement |
|---|---|---|
| **Residential Loans** | 100% at origination<br>130% post origination | LTV is calculated on the current UPB and the most recent valuation. For the post-origination LTV to exceed 100%, the LTV at origination must have been ≤ 100%. |
| **HELOCs/HELs** | 100% | The combined LTV of the first and second loans may not exceed 100%. For HELOCs, use the *maximum* line amount, not the UPB. For home equity loans, use the UPB. |
| **Commercial Loans (except places of worship)** | 85% | If second mortgages are reported, the total LTV for the first and second mortgage combined cannot exceed 85% |
| **Commercial Loans – Places of Worship** | 75% | If second mortgages are reported, the total LTV for the first and second mortgage combined cannot exceed 75% |
| **Multifamily Loans** | 85% | If second mortgages are reported, the total LTV for the first and second mortgage combined cannot exceed 85% |
| **Farmland Loans** | 85% | LTV is calculated on the current UPB and the most recent valuation |

### Purchase Transactions

For purchase transactions, the LTV calculation should be based on the lower of the purchase price or appraised value. If the loan originated more than 12 months prior to the "as of" date, then the most recent post-origination appraisal performed more than 12 months after origination should be used.

## For More information

Please refer to the LTV discussions in both the Residential and HELOC/HEL Collateral in Detail and in the Commercial, Multifamily, and Farmland Collateral in Detail sections of this guide.

### Ineligible Property Type

Loans secured by property types that are either ineligible in the portfolio in which the loan was reported, or are ineligible to be reported in any portfolio, are common exceptions.

## For More information

For additional information, please refer to the Property Type Eligibility discussions in both the Residential and HELOC/HEL Mortgage Collateral in Detail and the Commercial, Multifamily, and Farmland Collateral in Detail sections of
this guide.

### Missing or Unsatisfactory Lien Verification

For all loan collateral reported to the Bank, you must verify that each mortgage is in an acceptable lien position for the portfolio in which it is being reported. The Bank requires lien verification documentation to evidence lien position on all reported loans, regardless of the portfolio type. Missing or unsatisfactory lien verification documentation is one of the most common exception types.

## For More Information

For additional information, please refer to the Lien Position Verification discussions in both the Residential and HELOC/HEL Collateral in Detail and the Commercial, Multifamily, and Farmland Collateral in Detail sections of this guide.

**REMEMBER:** If you click on hyperlinked text and then want to return to the previous page, press the **ALT and Left Arrow** keys on your keyboard to navigate back.

## Mobile/Manufactured Homes Not Treated as Real Property

Loans secured by mobile/manufactured homes that do not have acceptable evidence of conversion from personal property to real property are common exceptions.

## For More Information

For additional information, please refer to the Mobile/Manufactured Home Loans discussions in both the Residential and HELOC/HEL Collateral in Detail section of this guide and the Manufactured Housing – Alternative Evidence of Real Property Status document on the Collateral Resources section of the Bank's website.

## Missing Original Note or Modification

For all loan collateral reported to the Bank, you must maintain possession or control of the original note and subsequent note modifications at all times. Loans missing the original note or applicable modifications are common exceptions.

## For More Information

For additional information, please refer to the Notes discussions in both the Residential and HELOC/HEL Collateral in Detail and the Commercial, Multifamily, and Farmland Collateral in Detail sections of this guide.

**REMEMBER:** If you click on hyperlinked text and then want to return to the previous page, press the **ALT and Left Arrow** keys on your keyboard to navigate back.

## Other Helpful Tips:

- Use the Bank's Loan Document Checklists to help ensure all documents necessary for the review are available
- Incorporate an eligibility review into your loan boarding process
- Scrub each portfolio for eligibility:
  - Review each file, where possible, for eligibility before reporting
  - If a complete review is not possible, you should consider reporting a specific set of scrubbed loans and scrub more loans as time and resources permit
  - Consider not reporting older loans that may be missing required documentation
  - Consider not reporting small balance loans since, if one of these loans is found to be ineligible, the loan may reduce your LCV more than removing the loan from the QCR
- Submit the trial balance and QCR by the specified due date to ensure sufficient preparation time for the loan files
- Ensure all documentation is in the file and available for the CVR team on the first day of the review
- Remember that a loan with multiple exceptions will remain ineligible unless all exceptions are cleared
- When in doubt, call your Collateral Relationship Specialist or Collateral Coordinator with any questions