

Optimizing Your Collateral Position

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Overview

- Borrowing Availability Determinants
- The Blanket Lien
- Collateral Control Arrangements
- Recent Changes to Borrowing Capacity Rates
- Collateral Certification Forms
- General Eligible Collateral
- Collateral Review Policy and Procedures
- Future Opportunities from the Seattle Bank
- Resources

Borrowing Availability Determinants

- Credit Line
- Stock Requirement
- Collateral

The Blanket Lien

- **The Advances Security & Deposit Agreement (ASDA):**
 - Grants a “Blanket Lien” on all assets to the Seattle Bank
 - Requires adherence to the Collateral Maintenance Requirement
- **UCC-1 Financing Statement** – filed on all members
- **ASDA & UCC** – permit members to “sell, use or dispose” of collateral not needed to meet Collateral Maintenance Requirement, without the Seattle Bank’s permission or release, provided that:
 - No event of default exists
 - Collateral Maintenance Requirement is met
 - Member is not under physical possession collateral arrangement
- **Subordinations with other parties** (i.e., FRB and Corporate CUs)

Collateral Control Arrangements

- **Blanket and Blanket (Custody)**
 - Single-family and multifamily – via Call Reports
 - Additional loan collateral – via quarterly certifications
 - Securities held in custody at the Seattle Bank or through an approved third-party custodian
- **Segregated/Listing**
 - Loan collateral reported on a set basis (weekly, monthly, etc.)
 - Securities held in custody at the Seattle Bank
- **Physical**
 - Loan collateral is delivered to the Seattle Bank. Documents include original note (endorsed in blank), deeds of trust/mortgages, title policies, etc., at the Seattle Bank's discretion.
 - Securities are held in custody at the Seattle Bank.

Changes to Collateral Borrowing Capacity Rates (effective 6/16/08)

Securities	Old Lending Rate	New Lending Rate
10- and 30-Year Treasuries	97%	93%
1- to 5-Year Zero Coupon	80%	97%
10-Year Zero Coupon	80%	90%
US GSE Structured Debt	80%	93%
Non-Agency CMO (AAA)	87%	90%
CMBS (AAA)	87%	90%
CMBS (A- - AA+)	60%	80%
Whole Mortgage Loans	Old Lending Rate	New Lending Rate
HELOC/Jr. Lien \geq 1/1/06	60%	45%
CRE w/DSCR's 1.10x-1.20x	n/a	40%
USDA, BIA, FSA Loans	83%	90%

Collateral Certification Forms

- Can be used for quarterly collateral reporting or to prepare for a collateral review
- Format:
 - Beginning balance – from call report or internal report
 - Subtractions – exclude loans that do not meet Seattle Bank eligibility requirements
 - Net eligible balance – final amount of eligible collateral
 - Questionnaire – on select forms
 - Certification – signed by an officer of the institution

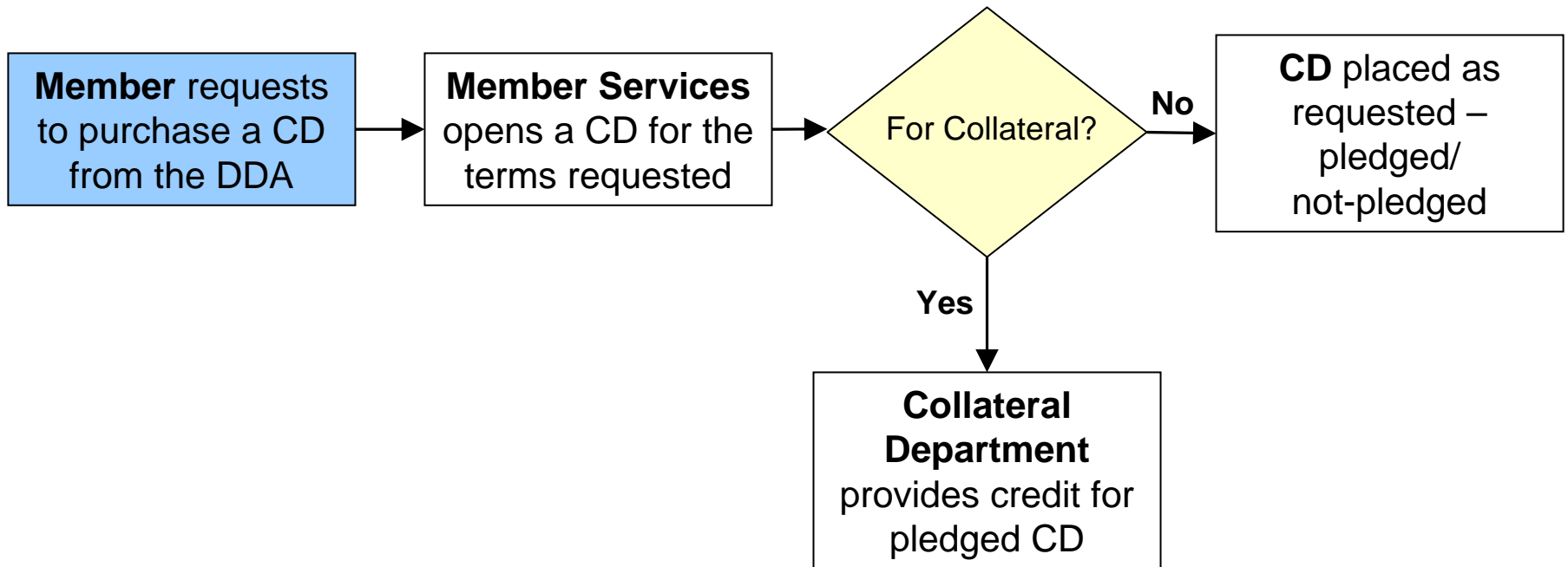


Forms for collateral reporting must be submitted no later than 45 days after quarter end!

General Eligible Collateral

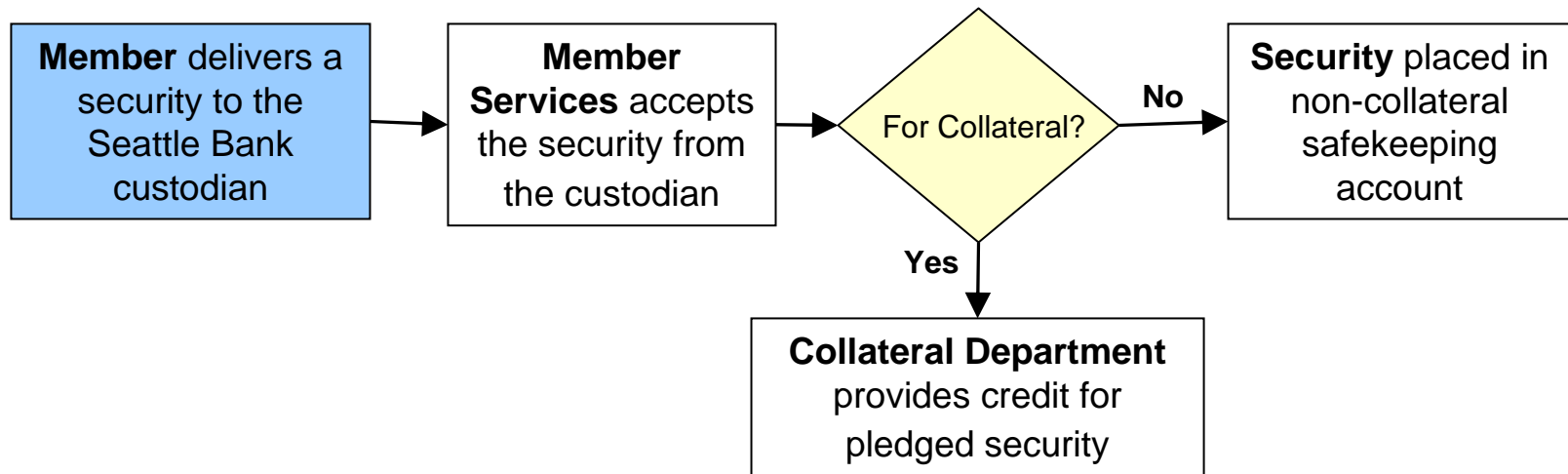
- Seattle Bank Certificates of Deposits
- Securities
- Single-family Loans
- Multi-family Loans
- Select Government Guaranteed Loans
- Expanded Collateral
 - Commercial Real Estate Loans
 - Jr. Lien/HELOCS
 - Community Financial Institution Collateral
 - Farmland Loans
 - Agri-business Loans
 - Small business Loans

Seattle Bank Certificates of Deposit (CDs)



Members must specify that the purchased CD is to be pledged for collateral in order to receive collateral credit.

Securities



Eligible securities:

- U.S. Treasury and Agency Notes/Bonds/Debentures
- Agency/Non-Agency MBS/CMO/REMIC
- Commercial MBS
- SBA pool security



Members must specify that the security is pledged for collateral via the Securities Settlement Instruction form in order to receive collateral credit.

Single-family Loans

- Collateral eligibility highlights
 - Prime-quality mortgages secured by first liens on improved residential real estate
 - Cannot be classified as “available for sale”
 - Cannot be construction loans
- Subprime loan requirements
 - Notify the Seattle Bank if more than 20% of the portfolio consists of subprime loans (defined as those having FICO scores of 660 or less).

Multi-family Loans

- Collateral eligibility highlights
 - Blanket pledge loans are not subject to a DSCR requirement, but loans pledged under Physical/Listing that have a current balance greater than \$500,000 are subject to a DSCR requirement.
 - Loans pledged under Physical/Listing arrangement cannot be more than 30 days past due.
 - Second liens are acceptable if the first lien has been pledged and the combined LTV does not exceed 80%.
 - Loan participations may be eligible.

Government Guaranteed Loans

- Collateral eligibility highlights
 - Collateral value is derived from the guaranteed portion of the loan and not the unpaid principal balance of the loan.
 - Loans pledged under Physical arrangement will need the original Assignment of Guarantee from the governing agency to be submitted at the time of the pledge.
 - Loans guaranteed by the Small Business Association are ineligible under this collateral category, but may qualify under other collateral types.

Commercial Real Estate Loans

- Collateral eligibility highlights
 - DSCR requirements:
 - Loans with current balances less than \$500,000 are not subject to a DSCR requirement and have a 60% borrowing capacity rate.
 - Loans >\$500,000 with a DSCR of 1.2x or greater are given a 60% borrowing capacity rate.
 - Loans >\$500,000 with a DSCR of 1.1x to 1.2x are now eligible at a 40% borrowing capacity rate.
 - Second liens are acceptable if the first lien has been pledged and the combined LTV does not exceed 80%.
 - Lines of credit are eligible if secured entirely by commercial real estate.
 - Loan participations may be eligible.

* I. Total Commercial Real Estate Loans (per regulatory or financial report):	\$250,000,000
II. Subtractions:	
1. Loans more than 30 days past due, or on non-accrual, or classified as substandard, doubtful, or loss, or the equivalent	\$(10,000,000)
2. Loans exceeding 80% Loan-to-Value	\$(30,000,000)
3. Ineligible purchased loan participations (see instructions)	\$()
4. Construction or development loans or loans not fully disbursed	\$()
5. Loans on raw land or unimproved property	\$()
6. Negative-amortizing loans	\$()
7. Loans greater than \$500,000 with a DSCR less than 1.10:1	\$(10,000,000)
8. Loans held for sale	\$()
9. Loans to employees, officers, directors, attorneys, or agents	\$()
10. Loans pledged to other entities	\$()
11. Any other ineligible loans (see instructions)	\$()
Total Ineligible Loans:	\$()
* III. Eligible Commercial Real Estate Loans with a DSCR 1.2X +:	\$100,000,000
* IV. Eligible Commercial Real Estate Loans with a DSCR 1.1X to 1.2X:	\$100,000,000
Calculated add-back value of loans:	\$66,670,000
V. Net Eligible Commercial Real Estate Loans:	<u>\$166,670,000</u>

Reporting the subtractions is optional for the quarterly collateral certification but required if being used for collateral review.

Eligible CRE loans with a balance of \$500,000 or less are reported in Section III.

Multiply eligible CRE Loans with a DSCR 1.1x to 1.2x by **.6667x**.

Borrowing capacity rate of **60%** is applied to net eligible value.

Collateral credit received from value reported: \$100,002,000.

Jr. Lien/ HELOCS

- Collateral eligibility highlights
 - Loans originated before 2006 receive a 60% borrowing capacity rate.
 - Loans originated January 1, 2006, or later receive a 45% borrowing capacity rate.
 - The maximum combined (first and second lien) LTV is 100% of the most current estimated property value.
 - The member need not hold the first lien in order to pledge the second lien, but third liens or lower are ineligible.
 - Subprime loans, defined as those with FICO scores of 660 or less, are ineligible.

* I.	Total Home Equity/2nd Mortgage Loans (per regulatory or financial report):	<u>\$ 51,250,000</u>
II.	Subtractions:	
1.	Loans more than 30 days past due, or on non-accrual, or classified as substandard, doubtful or loss; or the equivalent	<u>\$(1,000,000)</u>
2.	Loans exceeding 100% combined Loan-to-Value	<u>\$()</u>
3.	Subprime loans	<u>\$(250,000)</u>
4.	Construction or development loans	<u>\$()</u>
5.	Loans on raw land or unimproved property	<u>\$()</u>
6.	Loans held for sale	<u>\$()</u>
7.	Loans to employees, officers, directors, attorneys or agents	<u>\$()</u>
8.	Loans pledged to other entities	<u>\$()</u>
9.	Any other ineligible loans (see instructions)	<u>\$()</u>
	Total Ineligible Loans:	<u>\$(1,250,000)</u>
* III.	Eligible Loans Originated January 1, 2006 or Later:	<u>\$25,000,000</u>
* IV.	Eligible Loans Originated Prior to January 1, 2006:	<u>\$25,000,000</u>
	Calculated add back value of loans:	<u>\$33,333,333.33</u>
V.	Net Eligible Home Equity and 2nd Mortgage Loans:	<u><u>\$58,333,333.33</u></u>

Reporting the subtractions is optional for the quarterly collateral certification, but required if being used for collateral review.

Multiply eligible loans originated prior to January 1, 2006 by **1.5x**.

Borrowing capacity rate of 45% is applied to net eligible value.

Collateral credit received from value reported: \$26,250,000.

Community Financial Institution Collateral

- Members must comply with an asset cap requirement in order to pledge.
- Collateral categories
 - Farmland loans
 - Agri-production loans
 - Small business loans
- Collateral eligibility highlights
 - Loans must constitute a perfected first lien.

Collateral Review: Why Necessary?

- Federal Housing Finance Agency regulation requires that the Seattle Bank periodically inspect the collateral pledged by all members.
- Reviews ensure that the Seattle Bank is complying with regulations and internal policies governing the collateral supporting advances.
- The review is limited to eligible collateral. It is not an exam of a member's business practices, nor should it be considered a regulatory exam.

Collateral Review: An Overview

- Each year, the Seattle Bank reviews collateral from:
 - Randomly selected members
 - Specifically selected members based on credit factors and advance volume
- Many members will only be reviewed once every five years; some are reviewed annually based on exposure and risk rating.
- All reviews are conducted by Seattle Bank staff.
- No fees are charged for reviews.
- Reviews are generally conducted onsite at your institution.
- If the 12-month high credit balance was 100% covered by securities and/or CDs held by the Seattle Bank, the review is waived.

Collateral Review: What to Expect During the Review

- Member is asked to prepare an estimate of eligible collateral pledged, using worksheets provided by the Seattle Bank.
- Member provides trial balance list of loans along with other reports to identify eligible collateral.
- Seattle Bank selects a sample of eligible loans to be reviewed. (Loans are generally reviewed onsite.)
- Results are sent to the member to allow for corrections or further discussion of the findings.
- Findings are converted into exception rates, which are applied to reduce eligible collateral balances.

Collateral Review

How Can Exception Rates be Modified?

Members can request to have an exception rate reviewed if... the prior findings have been resolved.

1. Send request on corporate letterhead to the Collateral Review Analyst, outlining why the exception rate no longer applies.
2. The Collateral Review Analyst will ask for documentation addressing why specific findings no longer apply or how they have been resolved.
3. Adjustments to the exceptions will be entered once analysis is complete.

Future Opportunities from the Seattle Bank

- Accepting select municipal bonds as collateral for advances:
 - General obligation, revenue, and pre-refunded bonds will be eligible.
 - Bonds must be obligations of a domestic state, city, county, town, village, or school district.
 - Bonds must be real estate related, fixed-rate, and tax-exempt.
- The CFI 3-year asset cap being raised mid-year from \$625 million to \$1 billion:
 - Expanded collateral will still be subject to 20% asset limit.
- Offering Letters of Credit on non-housing tax-exempt muni's.

Resources

- Seattle Bank Web site: www.fhlbsea.com
- Financial Products and Services User Guide
- Collateral Manual

Resources

General Collateral Information

- Seattle Bank: 800.973.6223
- Relationship Manager
- Dianne Schlicke, Lending Initiatives Manager / diannes@fhlbsea.com (206.340.8693)

Collateral Department

- Email: collateral@fhlbsea.com; Fax: 206.340.2318
- Lisa Jones, Collateral Manager / lisaj@fhlbsea.com (206.340.8674)
- Kelly Lindner, Collateral Operations Analyst / kellyl@fhlbsea.com (206.340.8692)
- Jenny Li, Senior Mortgage Valuation Analyst / jennyl@fhlbsea.com (206.340.8667)

Collateral Review

- Jaime Manio, Collateral Compliance Analyst / jaimem@fhlbsea.com (206.340.2368)

Questions?