



# COLLATERAL ELIGIBILITY

March 29, 2023 | 2 p.m. CT

To maximize your ability to hear the webinar, we're muting all participants. Please keep your line muted.

# ABOUT THE PRESENTERS



## **ELAINE SHUMAKER | AVP, Financial Services Manager**

Elaine joined FHLBank in 1987. She held various positions until 1999 when she was promoted to Safekeeping Manager. She now oversees Financial Services, which includes safekeeping and collateral operations.



## **Dedra Duran-Gray | VP, Director of Collateral and Safekeeping Operations**

Dedra joined FHLBank in 2010 as a Senior Member Credit Risk Analyst. In 2017 she joined the Legal department and was primarily responsible for establishing FHLBank's Compliance department. In 2022 she was promoted to the Director of Collateral and Safekeeping Operations, which includes the collateral review and verification process.



# GOALS & AGENDA

## GOALS

- Insight into FHLBank's method of establishing collateral underwriting guidelines
- Learn about important changes to eligibility criteria
- Expand knowledge of eligible collateral

## AGENDA

- Why we have collateral guidelines
- Recently approved changes to FHLBank guidelines
- Overview of Schedule of Eligible Collateral
- Question and Answer session



# WHAT IS ELIGIBLE COLLATERAL?

Assets pledged by members to secure FHLBank credit obligations that comply with established underwriting requirements as published in the Member Products and Services Guide, specifically the Schedule of Eligible Collateral.



# ELIGIBLE ASSET TYPES

## Cash/FHLBank CDs

- Cash must be held in the member's Overnight Deposit account

## Securities

- Securities must be safekept at FHLBank or an FHLBank approved third-party custodian

## Loans

- Pledged via the Qualifying Collateral Determination (QCD) form or through the delivery process
- Institution owned



# COLLATERAL PLEDGED (REPORTED) TO FHLBANK

- Total Collateral Pledged
  - Unpaid Principal Balance \$159 billion
  - Lending Value \$118.9 billion
- Loans Pledged – \$103.1 billion in lending value
  - Held at institution (576,054 loans)
  - Delivered to FHLBank (1,532 loans)
- Securities - \$15.8 billion in lending value
  - 6152 securities
- Supporting Total Credit Obligations of \$50.8 billion



# WHY DOES FHLBANK HAVE UNDERWRITING REQUIREMENTS?

## Prudent Risk Management

- Allow us to adequately manage risk to protect our stockholders
- Establish transparent guidelines on acceptable collateral
- Provide members with a streamlined approach in identifying assets which can be pledged
- Identify homogeneous assets that are marketable and can be easily liquidated

## To accept an asset as collateral, we must be able to:

- Perfect FHLBank's security interest in the asset
- Obtain a readily ascertainable value of the asset
- The asset must be reliably discounted/priced
- The FHLBank must be able to liquidate in due course



# HOW DOES FHLBANK CREATE UNDERWRITING GUIDELINES?

**Under each asset class, establish criteria to create groups that are homogenous**

- Similar loan characteristics which allow us to group “like” loans together

**Consider current market trends and conditions**

- Similar perfection process
- Similar liquidation process
- Similar volatility components

**Common troublesome loan characteristics**

- Spec loans
- Interest only periods
- FICO/Debt to Income ratios
- Verification of Income/Employment
- High loan to values
- Debt Service Coverage Ratios





# HOW DOES FHLBANK CREATE UNDERWRITING GUIDELINES?

## Establish Lending Value

- Consists of four components
  - Credit Factor
  - Volatility Factor
  - Liquidation Factor
  - Model Risk Factor (Specific Pledge members only)

## Abide by Regulatory Requirements and Advisory Bulletins

- Delinquency
- Loan Classifications
- Nontraditional, Subprime, and Anti-Predatory Lending Issues
- Appraisals, LTV, and DSCR
- Director Officer, and Employee loans
- Pace and Private Transfer Fees



# WHERE DO I FIND ELIGIBILITY INFORMATION?

## Member Products and Services Guide (MPSG)

- Collateral Guidelines – page 57
  - Information regarding overall collateral processes and requirements
- Schedule of Eligible Collateral – page 64
  - Definitions/ glossary of terms
  - Additional clarifications
- Underwriting guidelines – page 72
  - Specific characteristics are identified for each asset classification which are required for eligibility



# ASSET CATEGORIES

## Unrestricted

- All Securities
  - Treasuries, Agencies Bonds and MBS/CMOs, CMBS, PLMBS/CMOs, SBAs
  - FHLBank Overnight Deposits & CDs
- Single Family Real Estate Loans
  - 1-4 Family Conventional, Interest Only
  - FHA/VA loans
  - Held-for-Sale Mortgages on 1-4 Family
- Multifamily Real Estate Loans



# ASSET CATEGORIES *(continued)*

## Restricted

- Commercial Real Estate Loans
- Agricultural Real Estate Loans
- Second Mortgages/HELOCs
- Construction Loans
  - Residential, Multifamily, Commercial
- CFI Collateral
  - Ag Operating
  - Equipment



# CREDIT AND COLLATERAL CHANGES

## Lending Values

- Collateral Type: I. Loans (conventional mortgages, FHA-insured mortgages, VA-guaranteed mortgages, multifamily)
  - Conventional amortizing mortgages on one-to-four family residential real property – from 81% to 77%
  - Conventional interest only mortgages on one-to-four family residential real property – from 75% to 72%
  - FHA-insured and VA-guaranteed mortgages on one-to-four family residential real property
    - Less than 90 days delinquent from 92% to 87%
    - Greater than 90 days delinquent from 88% to 83%
  - Held for sale mortgages on one-to-four family residential real property (HFS SF)
    - HFS SF eligible to be sold to FNMA, FHLMC or GNMA – from 92% to 87%
    - HFS SF NOT eligible to be sold to FNMA, FHLMC or GNMA – from 81% to 77%



# CREDIT AND COLLATERAL CHANGES

## Lending Values

- Collateral Type: II. Securities
  - Most pledged security types
    - Agency residential mortgage pass-through securities – from 98% to 94%
    - Agency CMOs – from 97% to 96%
    - Agency-structured bonds – from 96% to 89%
  - Several other changes to securities lending values went down
  
- Collateral Type: III. Deposits (FHLBank overnight deposits and CDs)
  - No changes



# CREDIT AND COLLATERAL CHANGES

## Lending Values

- Collateral Type: IV. Other Real Estate Related Collateral
  - Agricultural real estate – from 66% to 72%
  - Commercial real estate - unchanged
  - Second mortgages on residential one-to-four family property – from 71% to 66%
  - Home Equity Lines of Credit (HELOCs) – from 71% to 66%
  - Residential construction mortgages – from 66% to 63%
  
- Collateral Type: V. Other Collateral – CFI Institutions Only
  - Operating loans – from 57% to 63%
  - Equipment loans – from 54% to 58%



# CREDIT AND COLLATERAL CHANGES

## Summary of Changes to Lending Values:

Based on pledging activity as of February 6, 2023, the following is an estimate of the total impact to lending values of pledge collateral. The overall change will be a decrease, with an approximate 2.8 percent decline in total lending value for membership.

Collateral Types within MPP	Current Lending Value (\$)	Proposed Lending Value (\$)	Lending Value Change (\$)	% Change
I. Loans	\$ 65,442,497,220.74	\$ 62,428,527,508.58	\$ (3,013,969,712.16)	-4.6%
II. Securities	\$ 15,161,169,215.49	\$ 14,730,354,453.90	\$ (430,814,761.59)	-2.8%
III. Deposits	\$ 71,050,000.00	\$ 71,050,000.00	\$ -	0.0%
IV. Other Real Estate Related Collateral	\$ 34,293,567,223.02	\$ 34,335,415,388.76	\$ 41,848,165.74	0.1%
V. Other Collateral	\$ 1,603,509,823.61	\$ 1,774,931,304.03	\$ 171,421,480.42	10.7%
<b>TOTALS</b>	<b>\$ 116,571,793,482.86</b>	<b>\$ 113,340,278,655.27</b>	<b>\$ (3,231,514,827.59)</b>	<b>-2.8%</b>





# CREDIT AND COLLATERAL CHANGES

- Trends of Lending Values for our Most Widely Pledged Asset Categories:

	Lending Values by Year						
	'16 / '17	'17 / '18	'18 / '19	'19 / '20	'20 / '21	'21 / '23	'23 / '24
<b>Loans:</b>							
Single Falmily Real Estate - Conventional	79	79	80	78	79	81	77
Commercial Real Estate	66	64	64	64	63	65	65
Agriculture Real Estate	65	61	61	60	60	66	72
Multifamily Residential Mortgages	76	74	74	74	73	75	74
<b>Securities:</b>							
Agency (excluding MBS)	97	97	97	96	96	97	96
Agency MBS & Agency CMO's	97 / 96	96 / 96	97 / 97	97 / 97	97 / 96	98 / 97	94 / 96



# OTHER CREDIT AND COLLATERAL CHANGES

## Collateral Guideline Changes

- LIBOR Indexed Loans
  - No adjustable rate IBOR-indexed (including LIBOR) loans
    - Note date after December 31, 2021; or
    - U.S. dollar LIBOR tenors of 1-week or 2-months or all remaining IBOR tenors (overnight, 1-month, 3-month, 6-month and 12-month) without effective fallback language that remains IBOR-linked after June 30, 2023 (please refer to definition section for effective fallback language);
  
- Effective Fallback Language Definition
  - Language provided for in security offering documents or agreed to by the borrower which specifies how the replacement index will be determined in the event of the permanent cessation of IBOR; language granting the member with unilateral rights to make changes to the index, including but not limited to substituting a replacement reference rate and setting the appropriate spread adjustment as necessary; or covered under the Adjustable Interest Rate (LIBOR) Act enacted by Congress on March 15, 2022.



# UNDERWRITING GUIDELINES - SECURITIES

## Eligibility

- No Interest Only or Principal Only securities whose cash flows are derived from underlying collateral (i.e. CMO's)
- Prices must be readily available through the FHLBank's pricing vendors
- Prospectus may be required to determine security eligibility.
- Securities' underlying loan collateral cannot violate FHLBank's Anti-Predatory Lending policy
- Security Ratings from S&P, Moody's or Fitch
- Private issue residential mortgage pass-through and CMO securities' underlying loan collateral cannot:
  - Be secured by property subject to private transfer fee covenants that were created on or after February 8, 2011
  - Must comply with the Interagency Guidance on Nontraditional Mortgage Products Risks and Addendum to Credit Risk Management Guidance for Home Equity Lending if issued or acquired after July 10, 2007
  - Rating requirement must be greater than AA



# UNDERWRITING GUIDELINES - LOANS

- Commonalities between asset categories
  - Wet signature
  - Fully secured
  - Loan to value (appraisal must comply with applicable regulation)
  - Located in the United States
  - Term Limitations
  - Wholly owned
  - No lease loans
  - No land development
  - No loans with PACE liens
  - No loans subject to private transfer fees
  - No director, officer, employee loans
  - No loans past due (90 days for SF/ 60 days all other assets)
  - No classified assets (substandard, doubtful, loss, non-accrual)
  - Not pledged to another creditor or in another asset category
  - Certain LIBOR-indexed loans
  - Servicing/Custodial agreements, if applicable, must be on file



# BIGGEST TOPIC OF DISCUSSION

## “Wet” signature

- Electronic signatures vs scanned documents vs eNotes

### WHAT AN eNOTE IS:

A note executed electronically  
and stored in an eVault that  
meets the requirements for an eNote

### WHAT AN eNOTE IS NOT:

A scanned image of a wet ink signature or  
a note with an electronic signature that is  
not stored in an eVault and doesn't  
meet eNote requirements

- Current Status
- <https://www.fhlbtopeka.com/products/collateral/enotes>



# UNDERWRITING GUIDELINES - LOANS

## Fully Secured

- A loan in which the fair market value of the asset or assets pledged as security for the loan exceeds the outstanding principal balance of the loan.
- Loan to value
  - Single Family – 100%
  - Multifamily, Commercial, Agricultural – 85%
  - Appraisal must comply with applicable regulation
- Mortgage amount must equal or exceed outstanding principal amount
  - Future Advance Deeds of Trusts in Nebraska

## Located in the United States

- The underlying collateral is physically in the US



# UNDERWRITING GUIDELINES - LOANS

## Term Limitation

- Unless specifically stated, term limitation for all assets of 360 months

## Wholly owned

- Originated by your institution; you own 100%
- Originated by another institution; you purchased/acquired 100%
- Originated by your institution; you own less than 100% - can pledge net portion
- Originated by another institution; you purchased/acquired less than 100% - can pledge non-lead lender participations with special approval



# UNDERWRITING GUIDELINES - LOANS

## No Lease Loans

- A financing transaction in the form of a lease (structured financing)

## No land development/vacant land

- Agricultural Real Estate is fine if it's actively worked as agricultural land
- No lots
- No subdivisions





# UNDERWRITING GUIDELINES - LOANS

## No loans with PACE Liens

- Energy retrofit program
- Takes first lien priority

## No loans subject to Private Transfer Fees

- Fee assessed to seller when property changes ownership
- Found in title work and settlement statement



# UNDERWRITING GUIDELINES - LOANS

## No Director, Officer, or Employee loans

- Of your institution or FHLBank

## No loans past due

- Single Family – 90 days
- All other assets – 60 days

## No classified assets

- Substandard, Doubtful, Loss, Non-accrual
- Can be on Watch



# UNDERWRITING GUIDELINES - LOANS

## Not pledged to another creditor or in another asset category

- No splitting assets/loans between categories
- Cannot pledge to two entities

## No adjustable interest rate LIBOR-indexed loans with:

- Note date after December 31, 2021
- U.S. dollar LIBOR tenors of 1-week or 2-months U.S. dollar LIBOR tenors of 1-week or 2-months or all remaining IBOR tenors (overnight, 1-month, 3-month, 6-month and 12-month) without effective fallback language that remains IBOR-linked after June 30, 2023 (please refer to definition section for effective fallback language);

## Servicing or Custodial agreements must be on file (if applicable)

- Third-Party Servicer
- Third-Party Custodian



# UNDERWRITING GUIDELINES – SINGLE FAMILY LOANS

## 1-4 Family Conventional

- First Lien Position
  - Second lien goes in Second Mortgage Category
- Fully disbursed
  - No revolving lines of credit
- No Subprime characteristics
  - FICO less than 660 with a combined DTI greater than 50% (Test 1)
  - FICO less than 620, DTI greater than 55% without compensating factors (Test 2)
- No Nontraditional characteristics
  - Income/employment verification
  - Simultaneous Seconds
  - ARM loans – borrower qualified using fully indexed rate



# UNDERWRITING GUIDELINES – SINGLE FAMILY LOANS

## 1-4 Family Conventional (continued)

- No Predatory characteristics
  - Mandatory Arbitration
  - High fees/rates (HOEPA)
  - Prepayment Penalties
  - Single-Premium Credit Life/Disability
- No Reverse Mortgages
- One-time close construction to permanent financing loans
  - Term to maturity begins with conversion date to maturity

## Interest Only

- Only difference from 1-4 Family Conventional is minimum FICO of 680



# UNDERWRITING GUIDELINES – SINGLE FAMILY LOANS

## FHA/VA Loans

- Must comply with the Agency's underwriting guidelines
- Certificate or Guarantee present
- Can be 90 days past due – lending value based on the guaranteed portion
  - Special entry on the QCD form

## Held For Sale

- Agency Eligible
- Non-Agency Eligible
- QCD form vs daily reporting



# UNDERWRITING GUIDELINES – MULTIFAMILY LOANS

## Multifamily

- 5 or more units
- Interest Only 7 years or less
- Maximum LTV of 85%
- DSCR  $\geq$  1.00
- Appraisals must comply with applicable regulation



# UNDERWRITING GUIDELINES – COMMERCIAL LOANS

## Commercial Real Estate

- Interest Only 7 years or less
- Maximum LTV
  - 85% Blanket Pledge Members
- DSCR  $\geq$  1.00
- Phase 1 requirements
- No vacant land/land development, must be secured by CRE property
- No leasehold estates
- Cannot be secured by a property used for marijuana-related business
- Appraisals must comply with applicable regulation





# UNDERWRITING GUIDELINES – AG REAL ESTATE LOANS

## Agricultural Real Estate

- Maximum LTV of 85%
- Interest only limited to 18 months (require financial statement)
- No vacant land, must be for agricultural purposes
- No leasehold estates
- Cannot be secured by a property used for marijuana-related business
- No loans with a guarantee from USDA Farm Service Agency (FSA) Guaranteed Farm Loan Program



# UNDERWRITING GUIDELINES – SECOND MORTGAGE LOANS

## Second Mortgages

- Second lien position
- 1-4 family properties only
- Fully disbursed
- No subprime/non-traditional/predatory characteristics
- No negative amortization
- Maximum CLTV of 100%



# UNDERWRITING GUIDELINES – HOME EQUITY LINES OF CREDIT (HELOC) LOANS

## Home Equity Lines of Credit (HELOCs)

- First or second lien position
- 1-4 family properties only
- Revolving Line of Credit acceptable
- No subprime/non-traditional/predatory characteristics
- No negative amortization
- Maximum CLTV of 100%



# UNDERWRITING GUIDELINES – RESIDENTIAL CONSTRUCTION LOANS

## Residential Construction

- No spec loans
- No subprime/non-traditional/predatory characteristics
- No negative amortization
- Interest only or principal payments required
- One-time close construction to permanent financing loans allowed
- Initial advance period of 12 months
- Total term may not exceed 18 months
- LTV will be based on the proposed value on the appraisal, up to 100%



# UNDERWRITING GUIDELINES – AG OPERATING LOANS

## Ag Operating

- Secured by crops and/or livestock and/or in combination with Ag real estate
- If interest only, limited to 18 month term
- Revolving Line of Credit (LOC) allowed
- No Carryover Debt
- Cannot be secured by property/crops to be used for marijuana-related business
- No loans with a guarantee from USDA Farm Service Agency (FSA) Guaranteed Farm Loan Program

**CFI Collateral – For Community Financial Institutions Only**



# UNDERWRITING GUIDELINES – EQUIPMENT LOANS

## Equipment

- Secured by equipment located in the US
- No interest only or negative amortization loans
- Fully disbursed
- No Carryover Debt
- Cannot be secured by property/equipment to be used for marijuana-related business
- No loans with a guarantee from USDA Farm Service Agency (FSA) Guaranteed Farm Loan Program

**CFI Collateral – For Community Financial Institutions Only**



# UNDERWRITING GUIDELINES – LOANS RECAP

## Specific to certain asset categories

- Interest only terms
- Subprime/predatory/non-traditional characteristics
- Leasehold
- Appraisal requirements
- LTV requirements
- Phase 1 requirements
- Revolving LOC
- Cannot be secured by marijuana-related property/crops/equipment
- Loans with a guarantee from USDA FSA Guaranteed Farm Loan Program



# CASE-BY-CASE COLLATERAL

## Case-by-case Collateral Approval Process

- Requires a written formal request
- Scale the request (number of loans, dollar amount impacted)
- Provide documentation of loan characteristics and any other supporting information
- Evaluation by management prior to pledging
  - Acceptability
  - Lending value impacts
  - Collateral needs
- Case-by-case fee





**Q&A**



# ACCURATE REPORTING OF ELIGIBLE COLLATERAL

- Determines borrowing capacity at FHLBank
- Maximizes liquidity by allowing non-liquid assets to be used as collateral
- Improves results during a collateral verification
- Reduces expenses associated with collateral verifications



# EDUCATIONAL OPPORTUNITIES

## Annual Management Conference

- Overland Park, Kansas | April 19-21, 2023

## Regional Meetings

- August through October in Colorado, Kansas, Nebraska and Oklahoma
  - August 21, 2023 – Littleton, CO
  - August 28, 2023 – Lincoln, NE
  - September 28, 2023 – Manhattan, KS
  - October 4, 2023 – Oklahoma City, OK

## Collateral Review Contact

- One-on-one guidance



# HELPFUL RESOURCES



**Elaine Shumaker**

AVP, Financial Services  
Manager

PH: 785.478.8204

[elaine.shumaker@fhlbtopeka.com](mailto:elaine.shumaker@fhlbtopeka.com)



**Dedra Duran-Gray**

VP, Director of Collateral and  
Safekeeping Operations

PH: 785.478.8203

[dedra.duran-gray@fhlbtopeka.com](mailto:dedra.duran-gray@fhlbtopeka.com)

## Collateral Review Staff

800.809.2733 | [CollateralReview@fhlbtopeka.com](mailto:CollateralReview@fhlbtopeka.com)

## Financial Services Operations Staff

877.933.7803 | [FinancialServices@fhlbtopeka.com](mailto:FinancialServices@fhlbtopeka.com)

FHLBank Topeka Website | [www.fhlbtopeka.com](http://www.fhlbtopeka.com)

Collateral Landing Page | [www.fhlbtopeka.com/Products/collateral](http://www.fhlbtopeka.com/Products/collateral)

Member Products & Services Guide | [www.fhlbtopeka.com/mpsg](http://www.fhlbtopeka.com/mpsg)

