Member Liquidity Stress Assessment (MLSA) and Collateral Overview

Presenter

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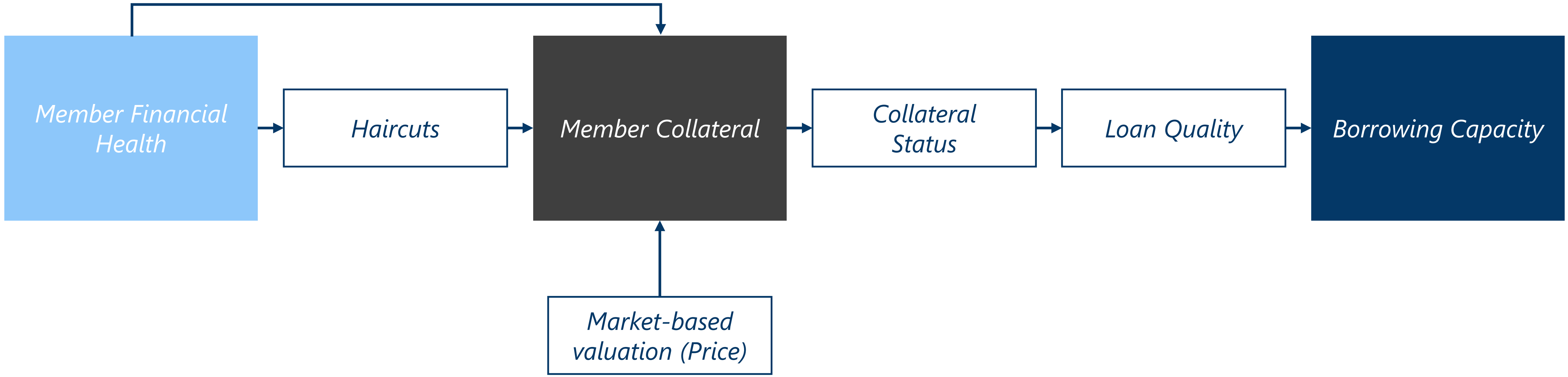
Disclaimer on Financial Data Used in Presentation

Key Benefits to Members

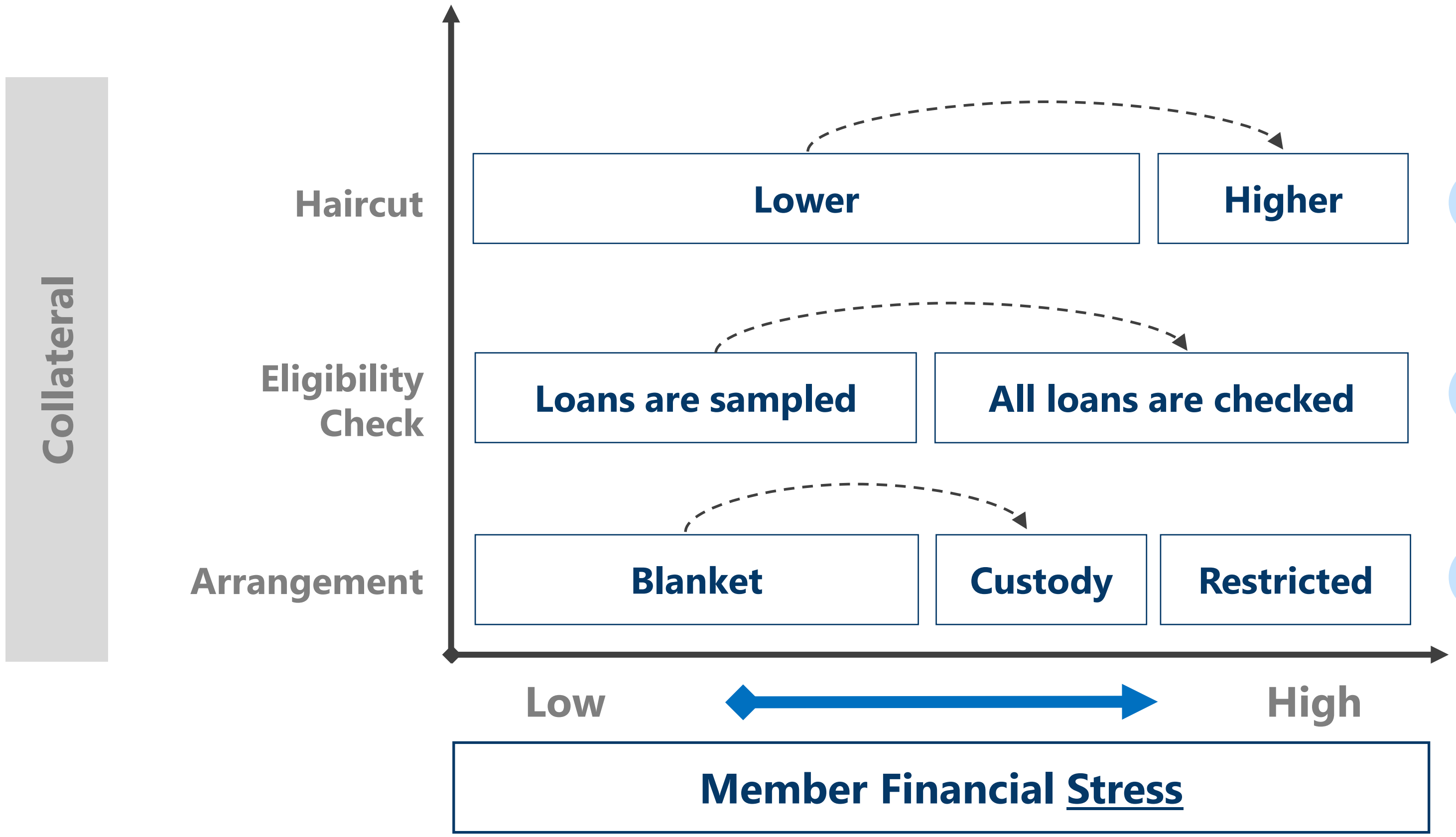
- **Member Liquidity Stress Assessment (MLSA):** Gives an estimate of member's creditworthiness based on a set of quantitative factors that are statistically proven to be the most predictive of bank failures.
- You can change factors within the MLSA to simulate a stress situation and see an estimate of how it will affect your collateral status.
- Gives you an estimate of potential change in total collateral capacity and collateral status in a stress scenario.

How Does the Member Liquidity Stress Assessment Work?

Factors Impacting Member Borrowing Capacity



Dynamics of the Stress Scenario



2 How much does the loan haircut change?

3 Do the pledged loans contain the necessary info (data, documentation and performance) to satisfy the eligibility standards?

4 Will member be required to deliver collateral to FHLB Dallas?

1 How severe is the stress scenario?

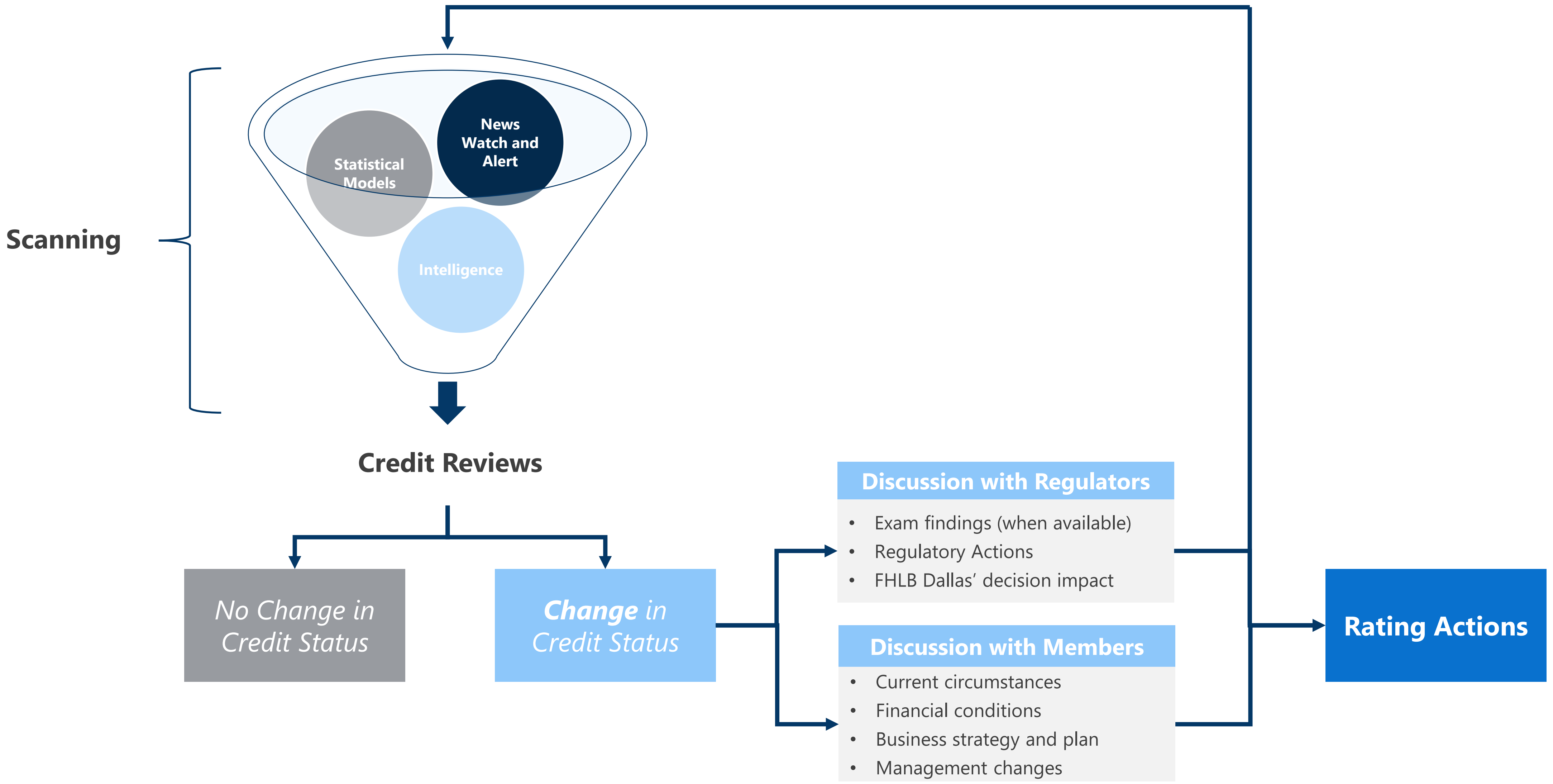
Credit Review Process

- Automated Quarterly Process (No member input required)
  - Focuses on Capital, Asset Quality, Liquidity, Profitability (Call Report data)
    - > Maintain Status Quo
    - > Select for Manual Review

- Manual Reviews Contain both objective and subjective components
  - Subjectivity provides some discretionary latitude
  - Possible outcomes include credit rating and/or collateral status change or maintain status quo

- The result of a manual review differ from those given in the MLSA, which only gives an indicative rating based on the four key ratios.

Credit Rating Decision Process



- Rating actions without a collateral status change may be approved by Credit Risk Management
- A change in collateral status or other significant actions require Credit Risk Committee approval

Communication Process

- Members **are notified** when there are major rating actions and scheduled for a conference call, generally regarding financial performance

- Depending upon the severity of the situation and or other available information
  - Maintain Status Quo for another quarter, or
  - Update Credit Rating or
  - Update Collateral Status and Credit Rating

- If **move to Custody or Restricted** status:
  - Members are provided with 45 days from the date of notification to deliver sufficient collateral to cover any existing obligations
  - Assistance preparing loan collateral for delivery is offered
  - Except for the original note with a "wet" signature, the delivery of most documents may be done electronically (facsimile, email or CD).

Required Documentation for Eligible Collateral Types

<table>
<tr><th></th><th colspan="7">Loan Collateral</th></tr>
<tr><th></th><th>Single-Family</th><th>Multi-Family</th><th>Comm.</th><th>Land Loans</th><th>Home Equity Loans</th><th>Small Bus. Loans</th><th>Small Farm Loans</th></tr>
<tr><td>Original Note</td><td colspan="7" rowspan="5">Required ✓</td></tr>
<tr><td>Proof of Lien Position</td></tr>
<tr><td>Collateral Valuation/Appraisal</td></tr>
<tr><td>Perfection of Lien</td></tr>
<tr><td>Hazard Insurance</td></tr>
<tr><td>Flood Determination</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td></td><td></td></tr>
<tr><td>Proof of Borrowers' Ability to Repay</td><td>✓</td><td>✓</td><td></td><td></td><td>✓</td><td></td><td></td></tr>
<tr><td>Consumer Regulatory Compliance</td><td>✓</td><td>✓</td><td></td><td></td><td>✓</td><td></td><td></td></tr>
</table>

Original inked document required (Payable to member)

Except for the original note with a "wet" signature, the delivery of most documents may be done electronically (facsimile, email or CD).

For a complete list, refer to the Loan Pledging Instructions document available on www.fhlb.com or contact collateral services at 800.541.0597 or collateral@fhlb.com.

Impact of Rating Transitions on Collateral Eligibility and Values

Collateral Arrangements

Eligible Collateral

“Blanket”

May not need to deliver collateral
Borrowing capacity is determined based on Call Report with established exception rates and valuation

- **Single Family**
- **Multifamily**
- **Commercial Real Estate**
- **Home Equity**
- **Land**
- **Construction**
- **Small Business (C&I)**
- **Small Farm**

To ensure smooth transition, haircuts on major loan categories remain unchanged when transitioning from Blanket to Custody status

45 Days Transition

“Custody”

All collateral must be delivered to the Bank

- **Single Family**
- **Multifamily**
- **Commercial Real Estate**
- Land
- Construction
- Small Business (C&I)
- Small Farm

Haircuts Increased

“Restricted”

All collateral must be delivered to the Bank with further restrictions

- Single Family
- Multifamily
- Commercial Real Estate
- Land
- Construction
- Small Business (C&I)
- Small Farm

Additional Haircut

Loan Collateral Haircuts - Banks

Collateral Values | Haircu

Collateral Arrangement

Loan Collateral Types

		Blanket		Custody		Restricted	
		Collateral Values	Haircu	Collateral Values	Haircu	Collateral Values	Haircu
Major	Single Family 1-4*	75%	25%	75%	25%	70%	30%
Major	Multifamily	70%	30%	70%	30%	67%	33%
Major	CRE	70%	30%	70%	30%	67%	33%
Minor	Land	40%	60%	25%	75%		95%
Minor	Construction	40%	60%	20%	80%		95%
Minor	Home Equity	60%	40%	No Collateral Value		No Collateral Value	
Minor	**CFI Only**						
Minor	Small Farm	45%	55%	25%	75%		95%
Minor	Small Business	50%	50%	30%	70%		95%

*Single Family 1-4 Blanket collateral value can vary based on if the loan is prime (up to 80% value) or subprime/nontraditional (up to 65% value)

Ineligible Collateral

Regulatory

- Loans to Directors, Officers, Employees, Agents, Attorneys of the Member or of FHLB Dallas (12 CFR 1266.7 f.)
- Loans without a perfected lien interest (12 CFR 1266.7 a.4.B.)
- Loans rated substandard, doubtful or loss (12 CFR 1266.7 c.)
- Unsecured loans (12 CFR 1266.7 a.4.B.)
- Loans secured by stocks and bonds (12 CFR 1266.7 c.)
- Purchased participation loans without an Affiliate Agreement in place (12 CFR 1266.7 g.)

FHLBank Policy

- Loans with a Lost Note Affidavit in lieu of the original paper promissory note
- Loans with promissory notes bearing facsimile or electronic signatures. Certified copies are ineligible
- Loans pledged to a third party, such as the Federal Reserve or another Federal Home Loan Bank
- Loans secured by collateral located outside the United States
- Loans to borrowers who do not have lawful presence in the United States
- Loans on nonaccrual, not reaffirmed in bankruptcy or other non-performing status
- Loans held offsite by a servicer or custodian without a custodial or other appropriate agreement executed with FHLB Dallas
- Coding errors identified in the Trial Balance using the Member's Collateral Code Definition as compared to Regulatory Reporting Guidelines
- Reverse mortgages
- Loans with a third lien (or lower inferior lien) position where Member does not hold all superior liens

For a complete list, refer to the Loan Collateral Eligibility Requirements document available on www.fhlb.com or contact collateral services at 800.541.0597 or collateral@fhlb.com.

Most Common Ineligibility Issues

- Unsecured Loans
- Loans Secured by Stocks/Deposits/Life Insurance
- Coding Inconsistencies
- Unfinished Title Work
- Missing Original Notes
- Informal Appraisals
- Expired Property Insurance
- High Loan-to-Value (LTV)
- Limited Income Documentation
- Poor Credit History
- Low Debt-Service Coverage Ratio (DSCR)

Coding Inconsistencies Accounted for 45% of the Ineligibility Issues

Collateral Valuation - Blanket

Blanket Status Collateral

Unpaid Principal Balance

$100 mm

Current Blanket Lien Worksheet Report

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FHLB (blktwksheet)              BLANKET LIEN STATUS WORKSHEET            Page No. 1

FHFA ID:                                              MEMBER TYPE:            CREDIT RATING:
TOTAL ASSETS:        $500,000,000                         TIER 1 CAPITAL (T1C):          $50,000,000
FINANCIAL DATE:                          TRIAL BALANCE:               ONSITE VERIFICATION:

1) SINGLE FAMILY (RCON5367, CU703)                                                   $100,000,000
Less: Participations                                                                           $0
      Adjustments                                                                              $0
      Delinquencies                                                                            $0
      Delivered Loans (Book Value)                                                             $0
Net Adjusted                                                                         $100,000,000
Multiplied by Collateral Value% by 100%-(Ineligible% + Exception%)x Price   75.00% x 85.00% x 95.00%
TOTAL SINGLE FAMILY                                                                   $60,562,500

2)MULTIFAMILY (RCON1460)                                                               $1,000,000
Less: Delinquencies                                                                            $0
      Delivered Loans (Book Value)                                                             $0
Net Adjusted                                                                           $1,000,000
Multiplied by Collateral Value% by 100%-(Ineligible% + Exception%)x Price   70.00% x 45.00% x 97.00%
TOTAL MULTIFAMILY                                                                        $305,550
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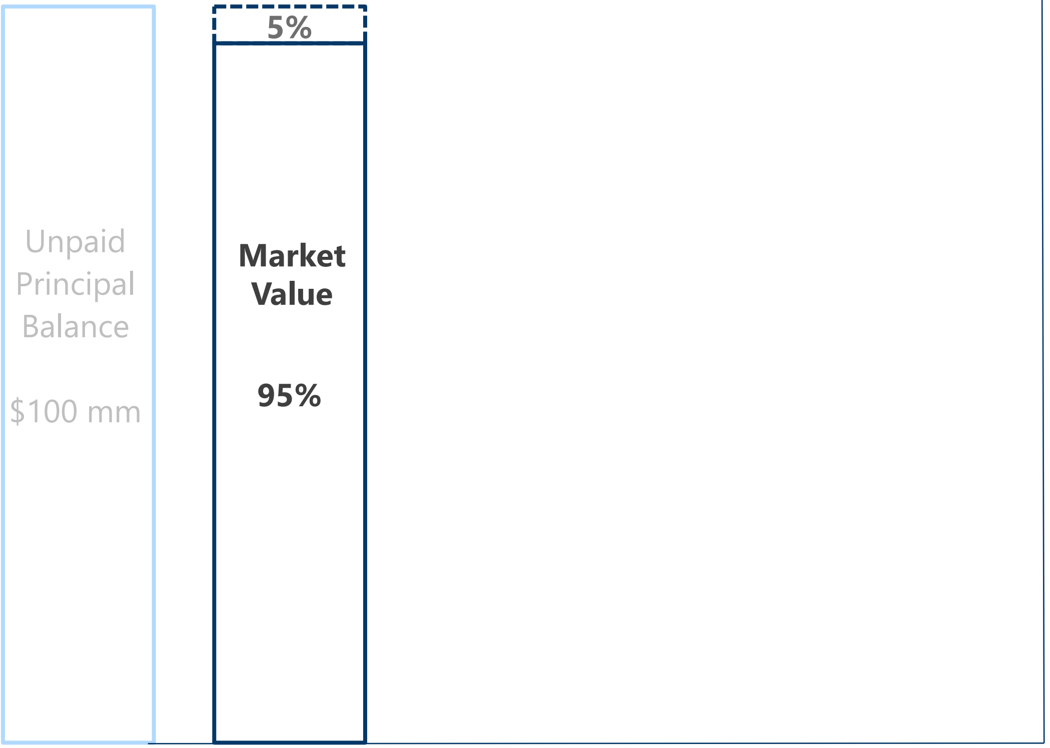
Collateral Valuation - Blanket

Blanket Status Collateral



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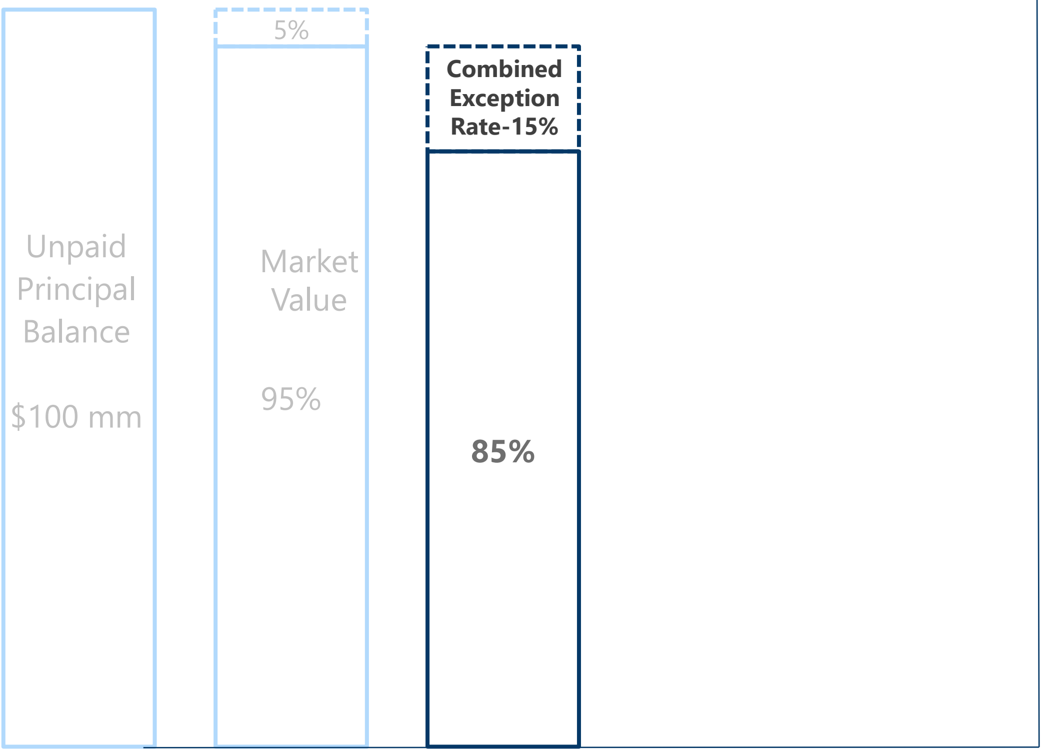

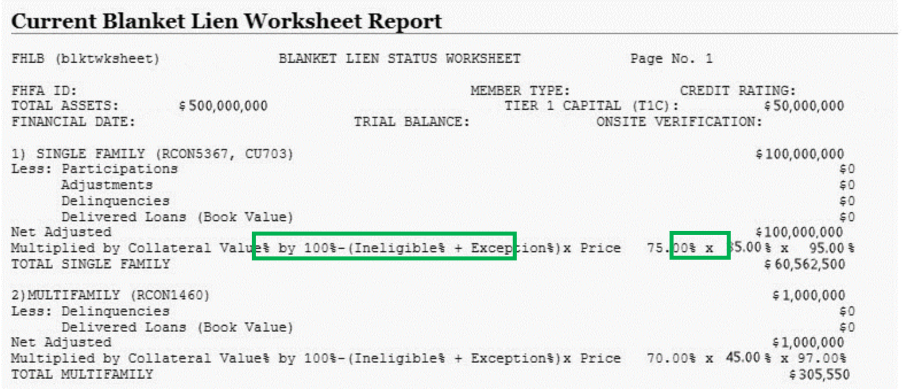

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Data Review Exception Rate

Loan data review. Loans that do not meet requirements in LCER* are considered ineligible.
Exception Rate = Book Value of Ineligible Loans/Total Book Value of Loans

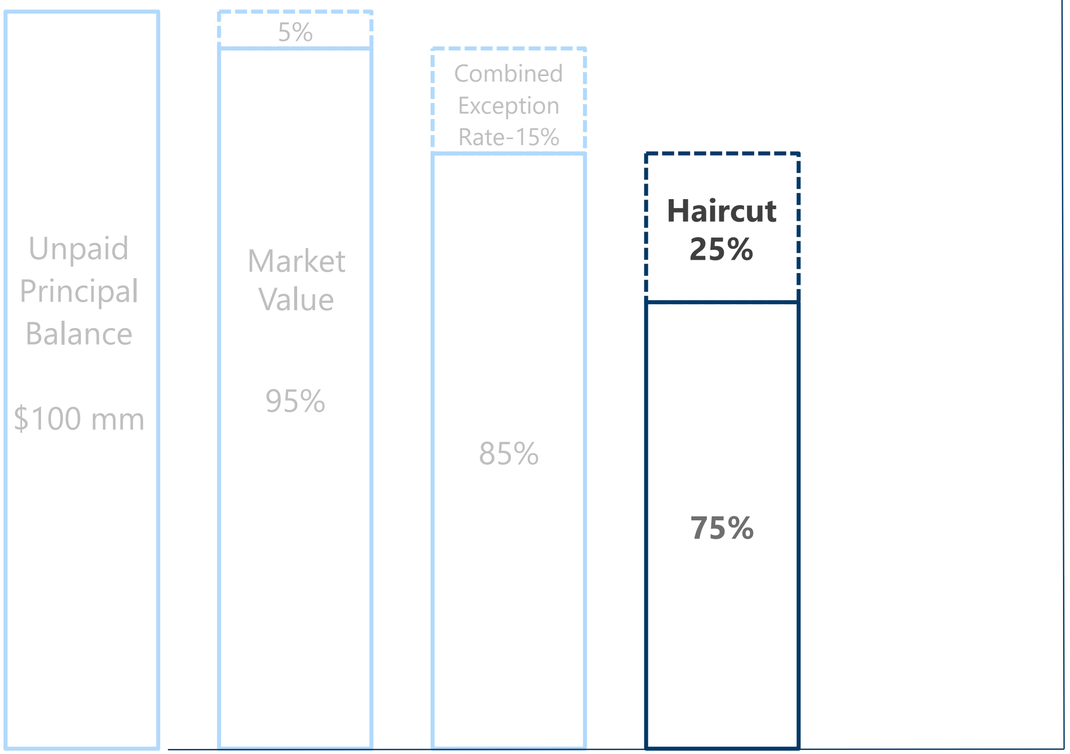
Document Review Exception Rate

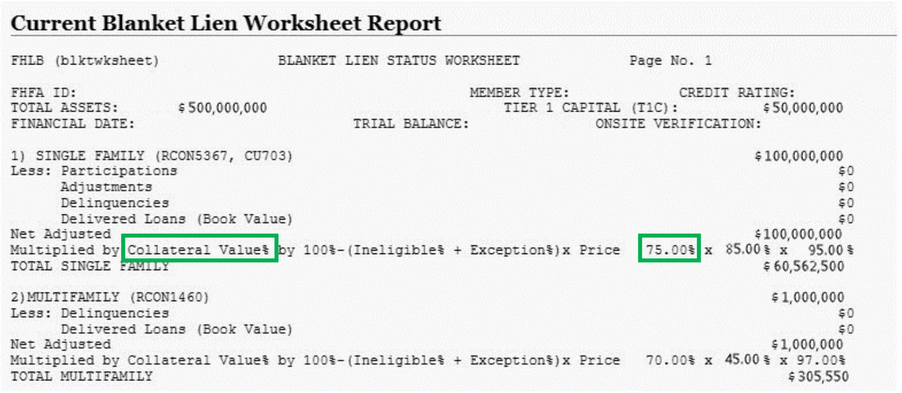
On-site review: sample of thirty loans reviewed for eligibility compliance
Exception Rate = # of Ineligible Loans/Total # Sampled Loans

*Loan Collateral Eligibility Requirements

Collateral Valuation - Blanket

Blanket Status Collateral





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TOTAL MULTIFAMILY                                                                         $305,550
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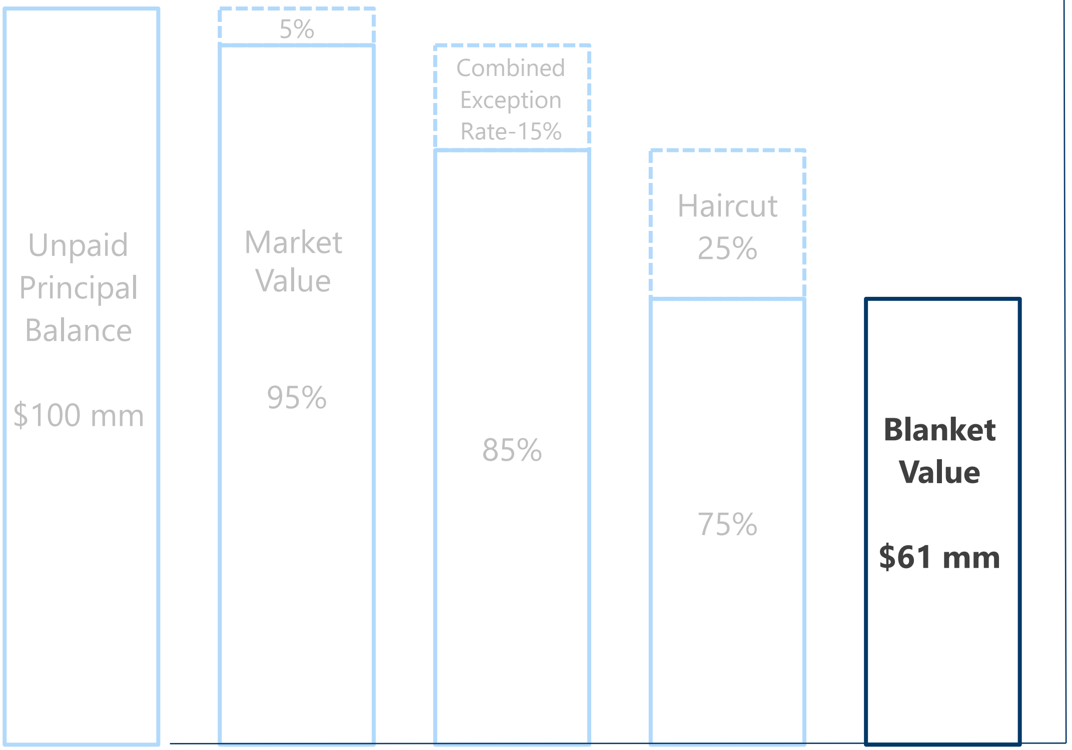
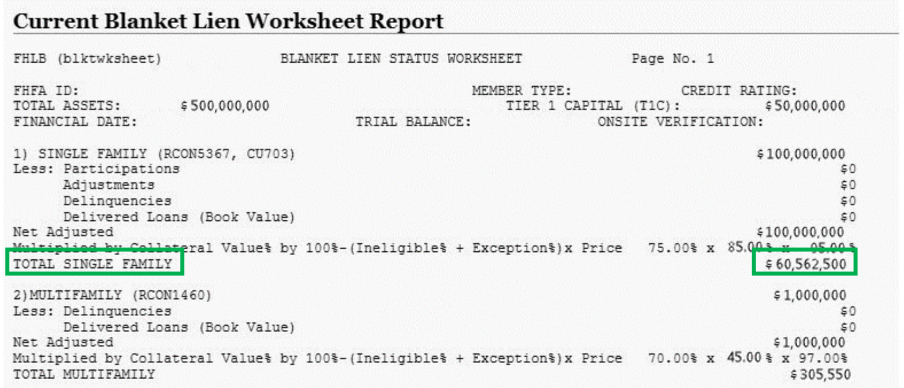
25% Haircut equates to 75% remaining

Collateral Valuation - Blanket

Blanket Status Collateral





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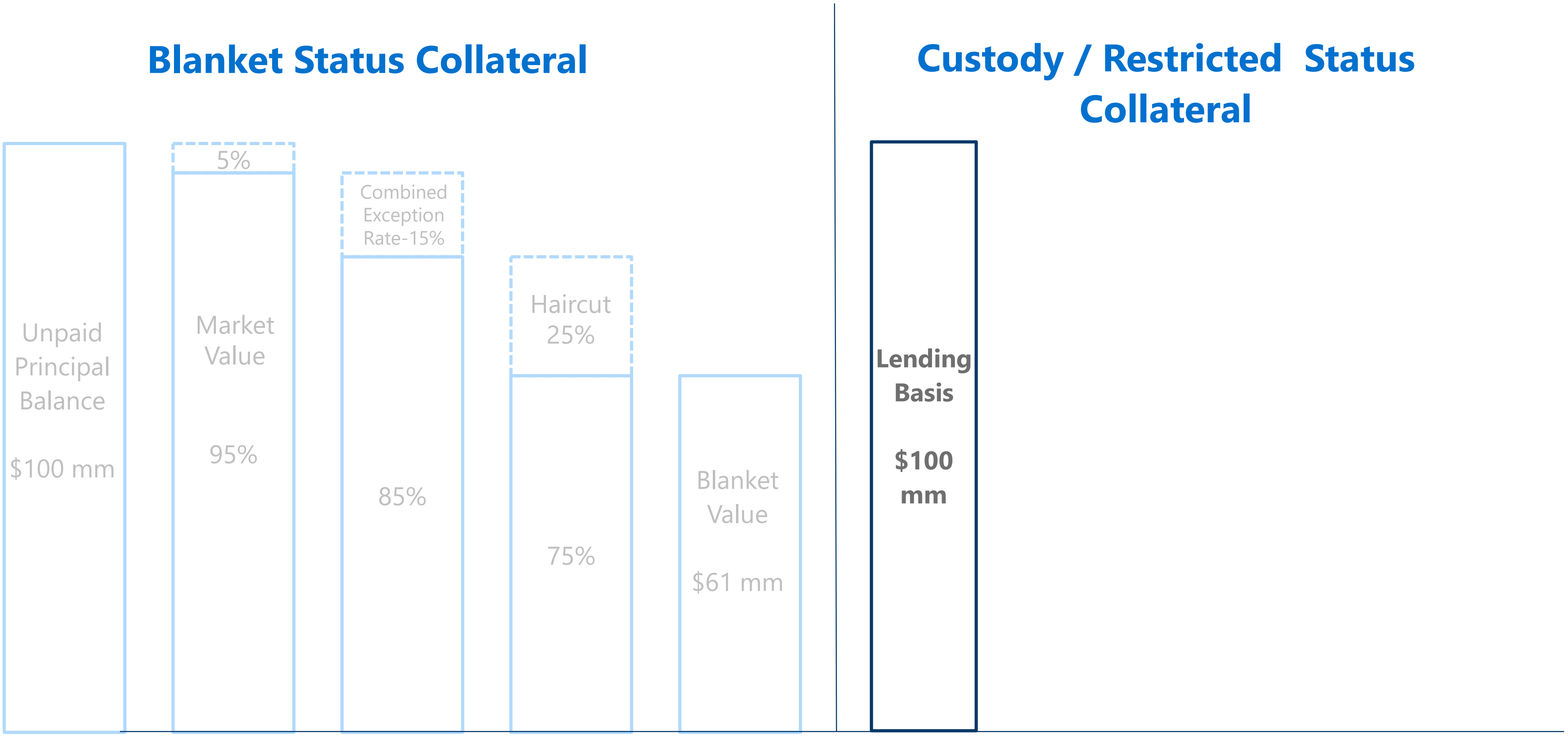
Collateral Valuation – Custody / Restricted

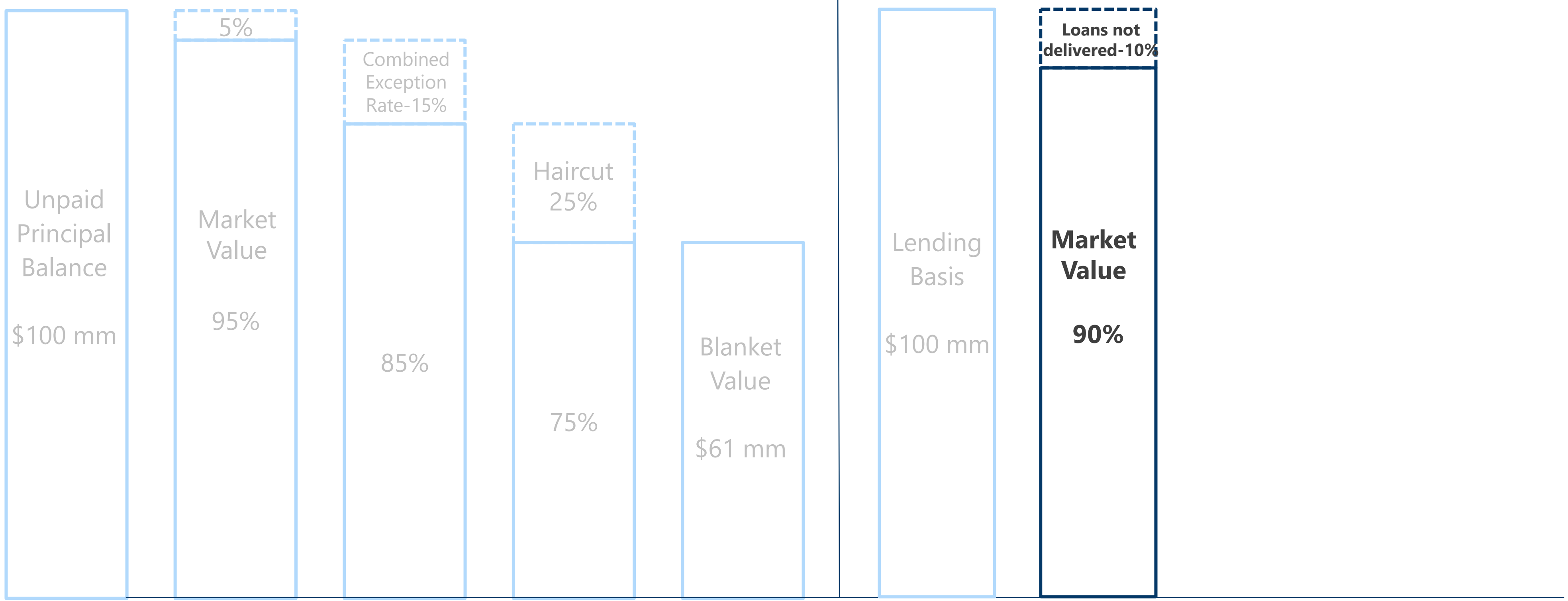


Lending Basis - the lesser of unpaid principal balance or original balance as reported on a monthly basis
Unpaid Principal Balance - Amount of principal remaining as reported on quarterly call report

Collateral Valuation – Custody / Restricted

Blanket Status Collateral

Custody / Restricted Status Collateral



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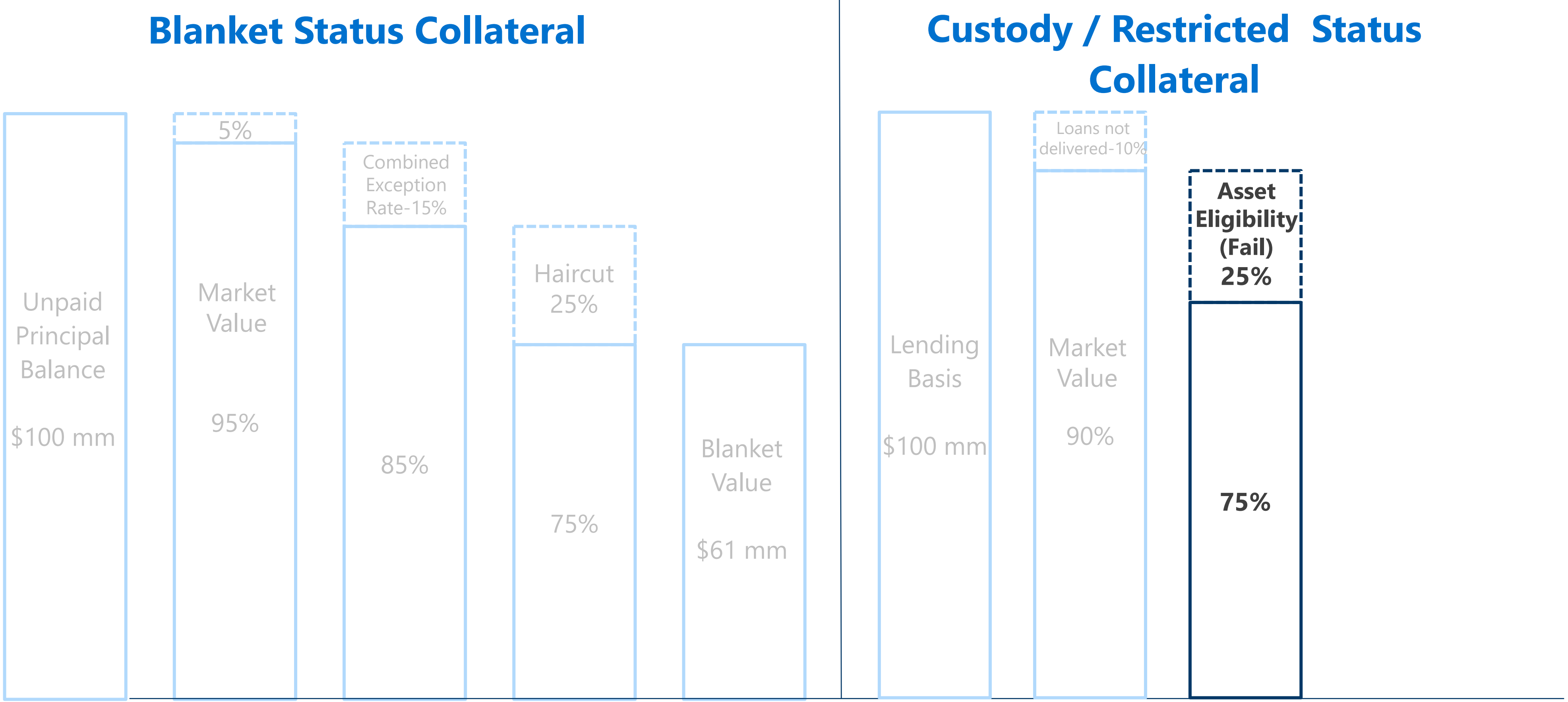

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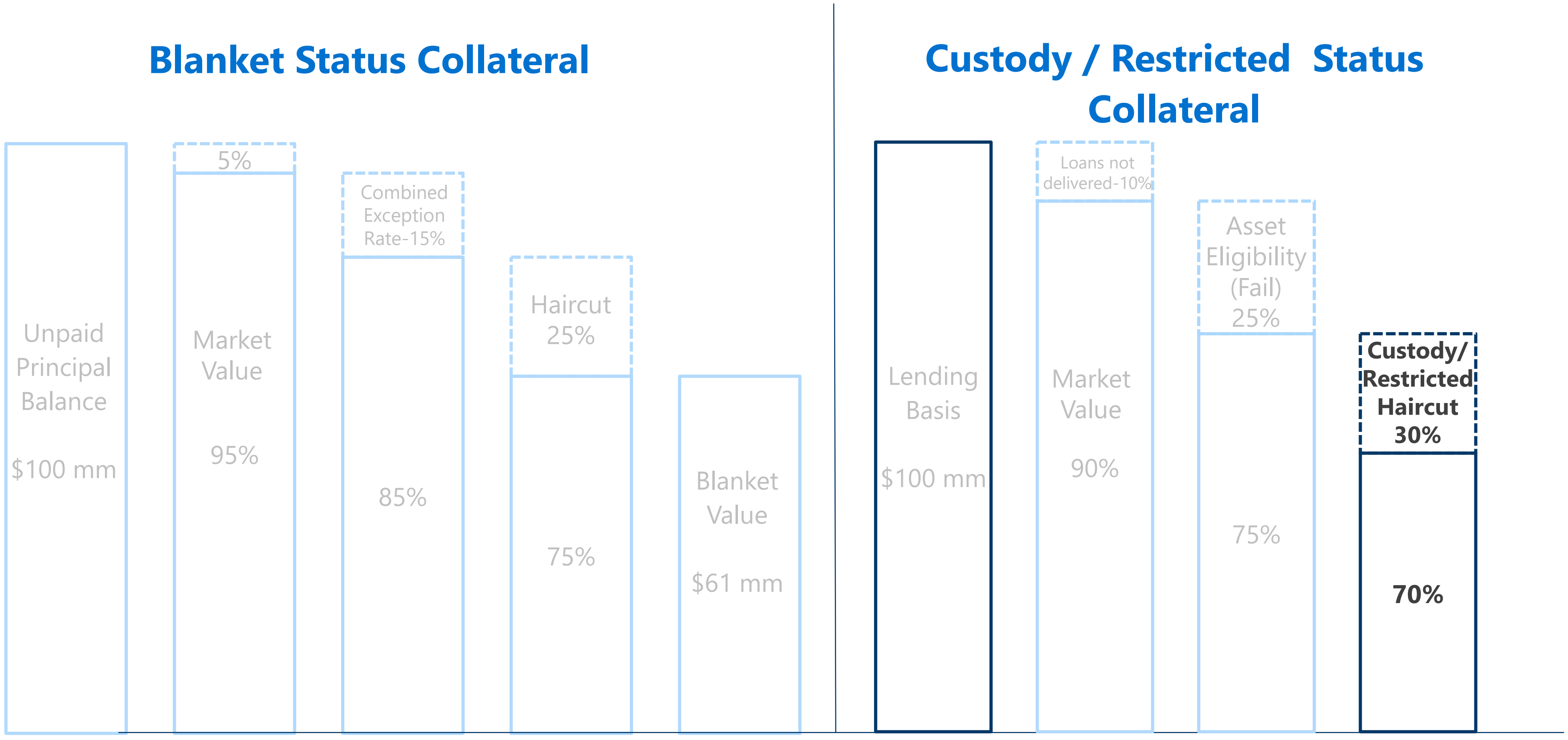

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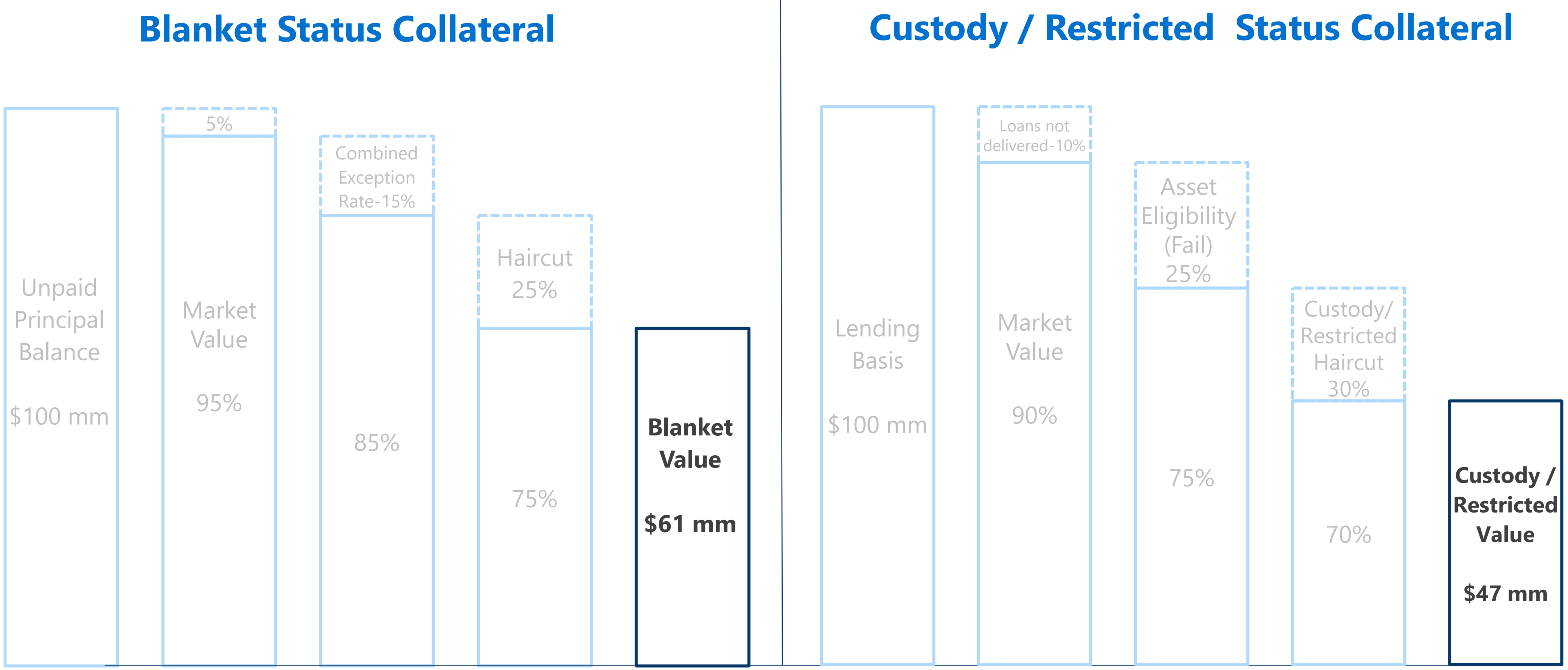

Blanket Custody/Restricted

$61mm - $47mm = $14mm difference in collateral value

Key Takeaways

The MLSA is designed to focus on what happens to a member's collateral value in a change from blanket collateral status to custody/restricted status.

- Key differences between blanket status and custody status include:
  - Loans must be delivered to the Bank to be considered for collateral value in custody status. Loans do not need to be delivered in blanket status.
  - In custody status all delivered loans are checked and are only eligible as collateral if they meet all requirements. In blanket, a sample of loans is checked, an exception rate is determined from that sample and applied to the portfolio.
  - Higher collateral haircuts may apply in custody compared to blanket status.

- If a loan initially fails the asset eligibility appraisal in Custody/Restricted status, you have the opportunity to work with the FHLB Dallas collateral department to try and repair the loan and recover the collateral value of the loan.

- FHLB Dallas is available to provide assistance during the transition from blanket to custody status.

- If you have ANY questions please contact us.

FHLBANK DALLAS

For additional information, please contact your FHLB Dallas Member Sales Officer or Member Solutions at:

1.844.345.2265

or

MLSA@fhlb.com