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Federal Home Loan Bank of Dallas

Collateral Valuation Guide

Upon membership approval, the Federal Home Loan Bank of Dallas (FHLB Dallas) places a lien on certain pledged assets. The asset valuation determines the member’s available collateral as shown on their member profile. This guide is intended to help members understand how FHLB Dallas evaluates qualifying collateral and further explain factors that may cause a member’s borrowing capacity to change.

FHLB Dallas members are required to maintain a level of qualifying collateral that fully secures FHLB Dallas credit extensions. Certain loans and securities (As detailed in the Member Products and Credit Policy) may be pledged as qualifying collateral to support these obligations.

The following components will be discussed in detail as they relate to the valuation of qualifying collateral:

- **Acceptable Asset**: The face value or unpaid principal balance of the assets pledged to FHLB Dallas as outlined in FHLB Dallas' policies and applicable regulations.
- **Haircut**: An FHLB Dallas discount applied to acceptable assets to account for the potential change in market value.
- **Asset Eligibility**: A factor applied to the asset based on FHLB Dallas eligibility criteria.
- **Price**: The asset’s estimated market value.

Collateral value that can be used to support obligations to FHLB Dallas.
Acceptable Assets

The collateral that FHLB Dallas may give lending value to depends on the institution charter type or designation as CFI or LFI institution as further described below. Every April, FHLB Dallas obtains the member’s total assets reported for the three most recent year-end filings to determine a member’s status as a community financial institution (CFI) or large financial institution (LFI). Members are notified if their institution status has changed. (See CFI/LFI discussion below.) The table below lists the collateral types that are acceptable assets for lending value purposes.

<table>
<thead>
<tr>
<th>Collateral Type</th>
<th>CFI</th>
<th>LFI</th>
<th>Credit Union</th>
<th>Insurance Company</th>
<th>Housing Associate</th>
<th>CDFI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single-Family Loans</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Held-for-Sale Loans</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Multifamily Loans</td>
<td>Yes</td>
<td>Yes</td>
<td>Opt-in</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Commercial Loans</td>
<td>Yes</td>
<td>Yes</td>
<td>Opt-in</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Commercial Construction Loans</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Land Loans</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Home Equity Loans</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Small Business Loans</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Small Farm Loans</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>U.S. Treasuries (Bills, Notes, Bonds, Strips)</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Securities</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Term Deposits</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

As defined in 12 CFR §1263.1, a community financial institution (CFI) is an institution: (a) insured by FDIC, and (b) that has a three-year average of total assets less than the CFI asset cap adjusted annually by Federal Housing Finance Agency (FHFA). Members that do not meet the definition of CFI are classified as large financial institutions (LFIs). As defined in 12 CFR §1263.1, a community development financial institution (CDFI) is an institution that is certified as a community development financial institution by the CDFI Fund under the Community Development Banking and Financial Institutions Act of 1994. Note that if an institution is both a CDFI and one of the other institution types listed above it will be treated as the other type listed above for collateral purposes.

Methods for Obtaining Collateral Value

The method by which members obtain possible lending value for their acceptable loan collateral depends on the member’s institution type, collateral status and credit rating as described in the Member Products and Credit Policy.

<table>
<thead>
<tr>
<th>Methods</th>
<th>CFI</th>
<th>LFI</th>
<th>Credit Union</th>
<th>Insurance Company</th>
<th>Housing Associate</th>
<th>CDFI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans (Blanket)</td>
<td>Blanket Status</td>
<td>Blanket Status</td>
<td>Blanket Status</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Loans (Listed)</td>
<td>A,B,C</td>
<td>A,B,C</td>
<td>A,B,C</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Loans (Delivered)</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>
Securities | Yes | Yes | Yes | Yes | Yes | Yes |
--- | --- | --- | --- | --- | --- | --- |

**Loans**

**Members on Blanket Collateral Status**

Certain types of members (see chart above) with a credit rating of A, B or C may be eligible for blanket collateral status. FHLB Dallas uses the member’s Call Report financials, which are provided by a third-party data feed, to set the member’s lending basis on which haircuts and exceptions will be applied as described below. This information is updated by FHLB Dallas about 45 days after each quarter end.

**Listed Loans**

Borrowers with a credit rating of A, B or C may submit loan-level data to FHLB Dallas utilizing an FHLB Dallas-provided template. Loan data is then updated on a monthly or daily basis as established by FHLB Dallas.

**Delivered Loans**

All borrowers can deliver physical loan files to FHLB Dallas or an approved third-party custodian. Members submit loan-level data on a monthly basis via an FHLB Dallas-provided template.

**Combination of the Above**

If a borrower on blanket collateral status receives blanket collateral value for loans, but also lists or delivers loans, then the listed and delivered loan value will be deducted from the blanket loan value.

**Securities**

All borrowers can deliver acceptable securities to FHLB Dallas or an approved custodian to be considered for qualifying collateral value.

The submission of collateral data and reporting frequencies are outlined below for each pledging method.

<table>
<thead>
<tr>
<th>Loans (Blanket)</th>
<th>Loans (Listed)</th>
<th>Loans (Delivered)</th>
<th>Securities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Submission</td>
<td>Call Report</td>
<td>Loan data file</td>
<td>Loan data file &amp; physical loan file</td>
</tr>
<tr>
<td>Reporting frequency</td>
<td>Quarterly</td>
<td>Daily or Monthly</td>
<td>Monthly</td>
</tr>
</tbody>
</table>
Haircut

Regulations require that acceptable assets pledged to FHLB Dallas be discounted to protect FHLB Dallas against loss in adverse circumstances. These discounts are referred to as haircuts. The complement of the haircut, as it is applied to loan collateral, is called the loan value percentage and represents the collateral value of the asset after the haircut is applied.

Loan haircuts are assigned based on the member’s credit rating and institution type as described in the Member Products and Credit Policy.

Price

In addition to the haircut, FHLB Dallas applies a price to the acceptable asset. The price is indicative of the collateral’s estimated market value, not to exceed par for loans. FHLB Dallas uses a pricing model in conjunction with third-party vendors to determine and validate the price. Acceptable assets are priced according to the frequencies listed below.

<table>
<thead>
<tr>
<th>Loans (Blanket)</th>
<th>Loans (Listed)</th>
<th>Loans (Delivered)</th>
<th>Securities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quarterly</td>
<td>Monthly</td>
<td>Monthly</td>
<td>Daily*</td>
</tr>
</tbody>
</table>

*Securities prices are a day in arrears. No qualifying collateral value will be applied to securities for which the price cannot be determined.

Asset Eligibility

FHLB Dallas reviews loans and securities to ensure compliance with regulatory and FHLB Dallas eligibility requirements. Acceptable assets must meet these standards to become and remain eligible for qualifying collateral value.

Loans

Loans pledged to FHLB Dallas’ as collateral must meet all applicable requirements detailed in the Bank’s Loan Collateral Eligibility Requirements (LCER). The LCER outlines the criteria that loans in each category must satisfy to comply with:

- FHFA regulations,
- Other applicable regulations (ex. HOEPA, PACE, etc.),
• FHLB Dallas policies (i.e., Loan-to-Value (LTV) requirements, debt service coverage ratio, etc.) and
• Loan documentation requirements (recorded mortgage, appraisal, etc.)

Loans Pledged on Blanket

For members on blanket collateral status, blanket loan eligibility is established through the collateral verification process. FHLB Dallas calculates both a.) a data review exception rate and b.) a document review exception rate for each loan category pledged to FHLB Dallas.

Data Review Exception Rate

FHLB Dallas identifies ineligible loans through a loan data ("trial balance") review using the information provided by the member. Ineligible loans are loans that do not meet regulatory requirements or the Bank’s policy to be considered eligible as collateral as described in the Loan Collateral Eligibility Requirements guide.

The data review exception rate is calculated for each loan type as follows:

Book Value of Ineligible Loans/Total Book Value of Loans

For example, if $2,500,000 of $36,500,000 single-family loans reported in RCON5367 are identified as ineligible, the data review exception rate for the single-family loan category would be 6.85 percent.

Document Review Exception Rate

During the onsite collateral verification process, FHLB Dallas selects a sample of loans from the remaining eligible population of loans after the data review. The sample of loans and related files are further reviewed for compliance with eligibility and documentation requirements. Based on the sample loans that fail to meet FHLB Dallas’ eligibility or documentation requirements during the onsite review, FHLB Dallas calculates an exception percentage, which is then applied to the entire portfolio of loans to determine overall ineligibility.

For example, a single-family loan reported in RCON5367 passes the trial balance review and is selected as one of 30 loan files to receive an onsite document review. The original promissory note for this loan cannot be located. All other single-family loans sampled pass the document inspection and meet the FHLB Dallas loan collateral eligibility requirements. Therefore, the document exception rate for single-family would be 3.33 percent.

In the event FHLB Dallas has not calculated a specific data review or document review exception rate for a member or certain loan type, FHLB Dallas will apply the appropriate default rate. Default rates are calculated using the results of all verifications performed the prior year in the district and establishing the average data review and document review exception rate for each loan category.

Listed Loans

Eligibility for listed loans is established in a two-step process. FHLB Dallas reviews the detailed loan information provided by the member to determine compliance with eligibility requirements on a loan-
by-loan basis. To ensure the loan continues to meet the established eligibility criteria the Bank will routinely monitor data submitted by the member.

A listed loan that met the eligibility requirements in the initial review may later be considered ineligible if and of the following actions occur:

- The loan is subsequently classified by the member or its regulator
- The loan becomes delinquent (beyond the established policy)
- The loan has matured
- The member does not submit the loan to FHLB Dallas by the established deadline

In addition, members with listed loans may be subject to an onsite collateral verification. During the onsite collateral verification process, FHLB Dallas selects a sample of loans that are reviewed for compliance with FHLB Dallas’ eligibility and documentation requirements. Based on the sample loans that fail to meet FHLB Dallas’ requirements during the onsite review, FHLB Dallas calculates a percentage that is then applied to the entire portfolio of listed loans. This determines overall ineligibility.

In the event FHLB Dallas has not calculated a specific data review or document review exception rate for a member or certain loan type, FHLB Dallas will apply the appropriate default rate. The default rates are calculated using the prior year verifications to determine the average for each rate.

Delivered Loans

Eligibility for delivered loans is established in a two-step process. FHLB Dallas reviews the detailed loan information provided by the member to determine compliance with eligibility requirements on a loan-by-loan basis. In addition, FHLB Dallas will review all loan documentation provided by the member as required in the Loan Delivery Instructions to ensure the loan meets the guidelines established in the LCER.

To ensure the loan continues to meet the established eligibility criteria, FHLB Dallas routinely monitors data submitted by the member. A delivered loan that met the eligibility requirements in the initial review may later be considered ineligible if the following actions occur:

- The loan is subsequently classified by the member or its regulator
- The loan becomes delinquent (beyond the established policy)
- The loan has matured
- The member does not submit the loan to FHLB Dallas by the established deadline

Delivered loans that fail to meet any of the eligibility requirements as outlined in the LCER will be assigned a 100 percent exception percentage resulting in zero collateral value for such loan. For loans pledged on a blanket listing, we apply exceptions on a portfolio basis. For delivered loans, we apply exceptions on a loan-by-loan basis using the data review rate and document review exception rate whereas exceptions on delivered loans are applied on a loan by loan basis.

Securities

As permitted by FHFA regulations, FHLB Dallas will provide collateral value for the security types outlined in the Member Products and Credit Policy. In addition, Private label mortgage-backed securities and
municipal bonds must meet FHLB Dallas’ credit rating requirements and for municipal bonds and members must provide adequate documentation to validate the bond’s real estate related component.

For more eligibility details applicable to securities please see FHLB Dallas Safekeeping Guide.

A security which is initially determined to be eligible collateral may later become ineligible if it experiences a decrease in credit rating (if one is required), is paid off or reaches maturity.
Valuation of Blanket Loan Types

For members on blanket collateral status, FHLB Dallas determines the qualifying collateral value for each collateral type based on the unpaid principal balance reported on the member’s quarterly Call Report for the collateral type. The collateral type is adjusted based on the following formula:

For example, a member bank reporting single family loans in RCON5367 on their call report with a book value (unpaid principal balance) of $15,400,000, a loan value percentage of 75 percent (25 percent haircut), a Price of 0.98, an Ineligible Rate of 8 percent and document exception rate of 6.66 percent from its current collateral verification would receive a qualifying collateral value of $9,719,942 for single-family loans.

*Note: The unpaid principal balance of listed and delivered loans is deducted from the blanket calculation for the corresponding loan type to avoid duplicate valuation.
Valuation of Listed Loans

Members that qualify have the option to provide FHLB Dallas with a listing of loans that have value calculated on a loan-by-loan basis. The lending basis for each listed loan is considered to be the lesser of the unpaid principal balance, original balance, assessed value or appraised value. This data is provided by the member in a loan list acceptable to FHLB Dallas and is updated on a daily or monthly basis depending on the program selected. Note: FHLB Dallas may apply an additional asset eligibility adjustment to each loan based on the results of the collateral verification for the corresponding loan category. Qualifying collateral value for listed loans is calculated as follows:

For example, a member bank listing a commercial loan in RCONF160 with an original balance of $300,000, unpaid principal balance of $290,000, appraised value of $325,000, and assessed value of $300,000 would have a lending basis of $290,000. Assuming a loan value percentage of 73 percent (27 percent haircut), a price of 0.95, a data review exception rate of 4 percent and 0 percent document review exception rate, the loan would have a qualifying collateral value of $193,070.
**Valuation of Delivered Loans**

Members on blanket collateral status may choose to deliver loans if they want greater collateral value and a better haircut; members on custody status are required to deliver loan collateral. The lending basis for each listed loan is considered to be the lesser of the unpaid principal balance, original balance, assessed value or appraised value. Whether members choose to deliver or are required to deliver, in order to receive collateral value for delivered loans the member must update information relating to such collateral on a monthly basis, or more frequently if requested by FHLB Dallas. The qualifying collateral value on delivered loans is calculated as follows:

For example, a credit union that delivers an eligible single-family loan (RCON CU703) with an original balance of $400,000, unpaid principal balance of $175,000, assessed value of $180,000, and an appraised value of $450,000 would have a lending basis of $175,000. Assuming a loan value percentage of 80 percent (20 percent haircut), a price of 0.97 and proper documentation that meets all eligibility standards, this loan would have a qualifying collateral value of $135,800.
The same credit union delivers another single-family loan (RCON CU703) with a lending basis of $255,000. However, the appraisal does not meet the loan collateral eligibility requirements. Therefore, this loan would provide no qualifying collateral value.

Valuation of Securities

The qualifying collateral value for a security is calculated as follows:

For example, an insurance company that delivers a security that FHLB Dallas determines is eligible with a current face of $3,400,000 a haircut of 102 and Price of 0.97, would receive qualifying collateral value of $3,233,333. [[[($3,400,000/102) x 0.97] x 100%]
For loan collateral questions, please contact:
Collateral Services
800.541.0597 or coll@fhlb.com

For securities collateral and term deposit questions, please contact:
Processing & Review
844.345.2265 or processingandreview@fhlb.com