

Effective Date: 04/12/2016

Office of Origin: Collateral Services Department

Member Guidance for Onsite and Desktop Collateral Verification

Workflow Arrangements

The FHLB Dallas Analyst will need a workspace sufficient to accommodate a laptop computer with access to an electrical power source and adequate space to review loan files. All required loan files should be pulled and ready for review upon analyst's arrival (if hardcopy files). If loan files are imaged, analyst access to your imaging system should be in place at time of arrival. Photocopied or imaged documents are acceptable with the exception of the promissory Note. The original promissory Note is required for each loan reviewed. Further details regarding our Note requirements are listed in items # 5–10 below.

Throughout the review process, the Analyst will provide status reports of findings to your designated personnel. While the Analyst is onsite at your location, additional documentation or information can be supplied for consideration in response to the findings. Post-review submission of documentation is typically not allowed.

The FHLB Dallas Analyst will schedule and conduct an exit meeting with your designated personnel and provide the preliminary review results. Final results of the onsite verification review will be provided after the review report is reviewed by FHLB Dallas management and quality audit.

Documents Required

Through the *SecureConnect* website, you will be provided the list of loans to be sampled during the onsite review. In addition to the following requirements, each sample loan file will be reviewed for FHLB eligibility based on the Ineligible Collateral list provided with this packet.

For sample loans which have been paid in full, we will select available replacement loans from the list provided through *SecureConnect*.

REAL ESTATE COLLATERAL

- 1.) The loans securing your blanket lien must be properly defined - Collateral Code Definitions Column R on the trial balance. These descriptions are expected to be compatible with collateral types allowed within the RCON/call code to which it is assigned.
- 2.) One-to-four family and multifamily residential loans must be fully disbursed, whole, first mortgage loans owned by the Member with no participating or retaining interest. (One-to-four family and multifamily loan Participations may be eligible if an FHLB Dallas approved Affiliate Agreement is in place.)
- 3.) Commercial, agricultural, land and construction loans may be wholly owned or a retained portion of a participation loan. The Member bank must be the "holder in due course" and

be in possession of the original Note. (Purchased participations without possession of the original Note may be eligible if an FHLB Dallas approved Affiliate Agreement is in place.)

- 4.) FHLB Dallas accepts Junior Liens for residential mortgage loans without the member simultaneously holding the first lien. Senior loan balance must be available in the file for on-site verifications. If member is not able to provide the senior lien loan balance, loan will be marked ineligible during on site reviews.
- 5.) FHLB Dallas accepts Nonresidential Junior Liens if the subject loan is in second position behind the Member's first lien. (This collateral type is available only for all members and must be reported in the appropriate RCON.)
- 6.) For each sample loan selected for review, the original inked-signature paper promissory Note must be provided. If the Note was executed using a Power of Attorney, the original POA or copy of the recorded POA must be provided.
- 7.) Notes signed electronically or bearing facsimile signatures are not eligible per FHLB-Dallas guidelines.
- 8.) A Lost Note Affidavit in lieu of the original paper promissory Note is not acceptable.
- 9.) For 1-4 family residential mortgage loans identified as Held for Sale, an FHLB-approved Bailee Letter is acceptable in lieu of the original promissory Note.
- 10.) If a Note was not originated by your bank, the complete chain of endorsements must be verified.
- 11.) If the sample loan Note matured within the 30-day period prior to the date the onsite review is being conducted, no exception will be taken for the maturity date. If the Note matured more than 30 days prior to the date the onsite review is being conducted, the loan will be ineligible in the onsite review. Exceptions to this policy are considered on a case-by-case basis.
- 12.) The recorded deed of trust/mortgage (a copy of the recorded document is acceptable) is required to verify the original loan amount and borrower name(s) match the Note and that the property legal description matches other loan documents.
- 13.) Recorded copies or original documents of any renewals, extensions or modifications are required.
- 14.) Assignment of Rents and Leases (filed of record or included in the Deed of Trust/Mortgage) is required for multifamily or commercial income-producing properties.
- 15.) Title Insurance or an Attorney's Final Opinion of Title for all loans with original amounts equal to or greater than \$250,000.00 must contain:
 - Title insurance in an amount sufficient to cover the current unpaid principal balance is required.
 - The legal description on the Deed of Trust/Mortgage must match the final title policy or attorney's final opinion of title.

- The final title policy or attorney's final opinion must show the Member is in first lien position. The loan being reviewed must also be in a first lien position if it is coded as a first lien per the Call Report instructions.
 - A commitment for title insurance, title search, preliminary title report or an attorney's preliminary title opinion will be accepted if the subject loan closed within the previous 60 days prior to the onsite review date, subject to the following conditions:
 - (a) A title search or preliminary report indicates the Member will be in first lien position
 - (b) The HUD-1 Settlement Statement confirms the purchase of the mortgagee title policy.
 - Endorsements providing extended coverage to the title policy or an updated attorney's opinion are required for additional funds disbursed on a renewal and extension.
- 16.) FHLB Dallas will accept the following Title Insurance for all single-family residential loans with original loan amounts equal to or less than \$250,000:
- a) Final Title Policy
 - b) Attorney's Opinion of Title
 - c) Mortgage Lien Protection Insurance (new)
 - d) Title Search (new)
 - e) Title Abstract (new)
- 17.) Private Transfer Fee – purchase transaction loans originated after February 8, 2011 contained in the 1-4 family and multifamily samples are examined during the onsite review for evidence of Private Transfer Fee. Loans determined as encumbered by a Private Transfer Fee will be an exception in the onsite review.
- 18.) The Member must be listed as the additional insured or loss payee and the amount of coverage should be equal to or greater than the unpaid principal balance. However, FHLB Dallas will accept an amount equal to the lesser of the Sales Price or Appraised Value minus the land value. Also, if the insurable value of the improvements (as determined by the property insurer) is less than the unpaid principal balance, the insurable value is the amount of coverage required. (Note: a review of each insurance policy is not required if a Blanket Forced Place Insurance Policy is in effect.)
- 19.) Flood insurance is required if the improved real estate collateral property is located in a Special Flood Hazard Area (SFHA) and the Member must be listed as the additional insured. The amount of flood insurance should be the lesser of a) the unpaid principal balance of the mortgage or b) the maximum insurance available from the National Flood Insurance Program (NFIP).
- 20.) Real Estate Valuation Requirements – we will verify the collateral value is equal to or greater than the current unpaid principal balance as follows:
- Loans with an original loan amount less than \$100,000 may have a valuation based on an insurance policy, sales contract, broker's opinion or written opinion of value from Member staff (see ** below for further details)

Loans with an original loan amount equal to \$100,000 and less than \$250,000 are required to have an appraisal/valuation in file and may be performed by Member staff (see ** below for further details)

Loans with an original loan amount equal to or greater than \$250,000 require a full appraisal that conforms to FIRREA and USPAP standards (see ** below for further details)

**Residential mortgage loans originated on or after 1/10/2014 and secured by a principal dwelling will be reviewed for compliance with CFPB ruling relative to appraisal requirements for higher-risk mortgages, as follows:

“Higher Risk” Mortgage Determination:

- (a) First lien conforming loan amount: APR exceeds Average Prime Offer Rate by 1.5% or more
- (b) First lien non-conforming loan amount: APR exceeds the Average Prime Offer Rate by 2.5% or more
- (c) Second lien: APR exceeds Average Prime Offer Rate by 3.5% or more

Appraisal Requirements for Higher-Risk Mortgages:

- (a) Appraisal must be written appraisal performed by a certified or licensed appraiser and includes interior inspection of subject property
- (b) Notice must be provided to Borrower at application confirming Borrower will receive a copy of the subject appraisal
- (c) Additional appraisal from a different appraiser is required if the property is being re-sold at a higher price within 180 days of its previous sale.

21.) Conforming loan limits 2016: One-unit residential \$417,000; Two-unit residential \$533,850; Three-unit residential \$645,300; Four-unit residential \$801,950)

22.) Property Assessed Clean Energy (PACE) liens – for 1-4 family, multifamily and commercial real estate sample loans, the property zip code will be compared to a PACE jurisdiction database. For any zip code match, FHLB Dallas will require a copy of the current tax statement or a tax certification. Sample loans with a PACE lien will be considered an exception if:

- the PACE lien is superior to the mortgage pledged to FHLB and the combined loan-to-value of the mortgage pledged to FHLB plus unpaid balance of the PACE lien exceeds 100 percent of the current appraised value, or
- The PACE loan balance cannot be determined.

23.) If the loan is an FHA loan or a VA loan, the FHA Mortgage Insurance Certificate or VA Loan Guaranty Certificate (as applicable) is required. For conventional loans insured with private mortgage insurance, evidence of the mortgage insurance is required.

24.) Single Family government insured loans (FHA, VA, and USDA) with an LTV between 100 percent-104 percent are acceptable. Evidence of the guarantee or insurance certificate is required.

- 25.) Small Business Administration Guaranteed Loans are eligible if the underlying collateral appraised value is equal to or greater than the subject loan's unpaid principal balance. No value is ascribed to the SBA Guarantee.
- 26.) Anti-Predatory Lending (APL) and HOEPA – sampled single-family residential mortgage loans closed in the name of natural borrowers reported in RCON5367, RCON1797, RCON5368, CU703 and CU386 will be reviewed for compliance with Anti-Predatory Lending (APL) and Home Ownership and Equity Protection Act (HOEPA). Loans closed in the name of a business entity or trust are excluded from our APL and HOEPA review. FHLB Dallas will apply APL and HOEPA tests according to the subject loan origination date, as described here:

Loans originated prior to January 10, 2014:

- Applicable transaction type
 - principal residence, refinance, closed-end credit, first lien or second lien
- Exempt transaction types
 - purchase transactions
 - construction loans
 - open-end home equity lines of credit
 - reverse mortgages
 - non-principal residences
- APR & Fees test for applicable loans originated prior to January 10, 2014:
 - for a first lien, APR must not exceed by more than 8 percentage points the rates on comparable maturity Treasury securities
 - for a second lien, APR must not exceed by more than 10 percentage points the rates on Comparable maturity Treasury securities
 - total fees and points paid by the Borrower must not exceed the lesser of \$1000 or 8 percent of the loan amount. (Exception for Texas Home Equity Section 50(a) 6 loans: applicable fees and points paid by the Borrower must not exceed 3 percent of the loan amount)
- APL test for applicable loans originated prior to January 10, 2014
 - loans containing mandatory arbitration clauses with respect to dispute resolution are ineligible for FHLB Dallas (unless such arbitration provisions are allowed by state law)
 - loans that require prepayment penalties for early payoff beyond the first five years of the loan are ineligible for FHLB Dallas
 - loans that require the Borrower to obtain prepaid, single premium credit life or similar insurance are ineligible for FHLB Dallas

Loans with applications taken on or after 1/10/2014:

- Applicable transaction types
 - principal residence purchase, first or second lien
 - principal residence refinance, first or second lien
 - principal residence closed-end home equity loan
 - principal residence open-end home equity line of credit

- Exempt transaction types
 - construction loans (new construction only; not remodel or improvements)
 - reverse mortgages
 - non-principal residences (rental, vacation or second home)
 - Loans originated and directly financed by a Housing Finance Agency (HFA)
 - Loans originated under USDA’s Rural Development Section 502 Direct Loan Program

- APR test: Applicable loans with applications taken after 1/10/2014 will be tested utilizing the Average Prime Offer Rate (APOR) index and the following revised guidelines for determining compliance with HOEPA. The 2014 revised HOEPA rule provides that a transaction is a “high-cost mortgage” if:
 - (a) the APR exceeds the APOR by more than 6.5 percent for first liens of \$50,000 or more;
 - (b) the APR exceeds the APOR by more than 8.55 percent for first liens less than \$50,000;
 - (c) the APR exceeds the APOR by more than 8.55 percent for second lien transactions;
 - (d) points and fees exceed 55 percent for loans of \$20,391 or more; or

points and fees exceed lesser or 8 percent or \$1,000 for loans less than \$20,391 (Exception for Texas Home Equity Section 50(a)6 loans: applicable fees and points paid by the Borrower must not exceed 3 percent of the loan amount)

High-cost mortgages as defined above are ineligible collateral for FHLB Dallas.

- APL test: Applicable loans with applications taken after 1/10/2014 are ineligible collateral for FHLB Dallas if any of the following loan characteristics apply:
 - (a) Mandatory arbitration clause with respect to dispute resolution
 - (b) Prepayment penalty for early payoff beyond the first three years of the loan
 - (c) Mandatory prepaid, single-premium credit life or similar insurance
 - (d) Financing of single-premium credit life insurance premiums (required or voluntary) or similar insurance into the subject loan amount

27.) Interagency Guidance for Subprime and Nontraditional Lending: in the Single Family sample, one-to-four family residential mortgage loans originated or acquired after July 10, 2007 will be reviewed for compliance with *Interagency Guidance on Nontraditional Mortgage Product Risks* published in the Federal Register October 4, 2006 and *Statement on Subprime Mortgage Lending* published in the Federal Register July 10, 2007. Interagency Guidance review will apply only to loans closed to natural persons. Loans closed in the name of a business entity or trust are excluded from FHLB-Dallas Interagency Guidance review. Our Interagency Guidance review will encompass:

- Original Loan-to-Value – LTV will be calculated on the sum of the original loan amount and any concurrent secondary financing, divided by the appraised value as of the origination date

- Loan application and loan approval document – required to determine occupancy

status of the collateral property and the loan purpose. These documents should also indicate the qualifying rate.

- ARM disclosures – when applicable, loan file must evidence proper ARM disclosure.
 - Private Mortgage Insurance (PMI) – Subject to current FHLB Dallas guidelines.
 - Any of the following items in file pertaining to verification of Borrower’s income and employment: paystubs, W-2 forms, personal or business tax returns, personal bank statements, written Verification of Employment (VOE), etc.
 - Bank statements or other asset documentation used to verify sufficient funds to close (per HUD-1) and reasonable reserves as of the origination date.
 - Debt-to-Income Ratio – based on the borrower’s total monthly debt payments divided by gross stable monthly income at time of loan origination.
 - Borrower’s Credit – using the credit report that was relied on to make the loan, we will review for credit score and overall credit history performance.
 - Community Lending or Affordable Housing Initiatives – if applicable, information regarding the community lending program is required.
- 28.) Mortgage Pay History – the most recent 12 months pay history is required for all loans sampled in the Single Family, Multifamily, Commercial Real Estate and Home Equity categories.
- 29.) Debt Service Coverage Ratio (DSCR): for multifamily or commercial income-producing property, minimum debt service coverage ratio of 1.05 is required.
- 30.) For sample 1-4 family residential mortgage loans identified as Held for Sale which have been delivered to an investor, our process will include the substitution of a comparable Held for Sale loan. Full clarification of our replacement and substitution process will be provided by the assigned analyst prior to the onsite review.

