

Valuation of Residential One- to Four-Family Residential Mortgage Loans FAQs

Why is the Bank making this change from book value to the lower of market or book value?

Of all the Bank's eligible collateral types, the one- to four-family residential mortgage loan collateral has been the only collateral category valued at book. The Bank has determined that using market value is a more prudent way to value all collateral going forward.

When will this change be effective?

The Bank expects to obtain market values in July 2017 and will start the adjustment process soon thereafter.

How will the Bank obtain market values for my loans?

The Bank will provide loan level details from members that list collateral with the Bank to a third-party pricing vendor that will use the data to determine market valuations. Haircuts and other adjustments (if any) will be applied to the lower of book or market, on an aggregate basis.

My institution does not provide loan level details. How will the market value of my loans be determined?

The Bank will estimate the market value of a member's residential mortgage loan collateral by utilizing the aggregate portfolio of thirty-year fixed rate mortgages for which the Bank does have detail – that is, from those members that provide loan level details. Over 50 percent of residential mortgage loan collateral pledged to the Bank is from members that provide detail and thus serves as a reasonable proxy for the membership overall. If you would prefer to have your own residential mortgage loan portfolio values rather than being subject to a market proxy, loan level detail will need to be provided to the Bank. Your Relationship Manager or the Collateral Department will be available to provide you with information about the process for providing loan level detail.

Will the haircuts change now that the valuation is based on the lower of book or market value?

Not at the outset. The Bank re-evaluates haircuts on an annual basis. With the availability of more current information on the market values of the one- to four-family residential collateral, the Bank will likely review its haircut methodology for this collateral which may potentially improve the current haircuts.

What is the expected change in my collateral based on this change?

Our first review of market value estimations – using proxies for the interest rate changes between now and the last market value estimates obtained in early 2016 – indicates that less than 10 percent of members will experience declines in their borrowing capacity as a result of this change. For illustration only, we estimate that a 150 basis point increase in rates could potentially impact values by 10 points.

If my collateral valuation changes, how will I receive notification of the impact?

Members will be able to see a change in their "collateral adjustment factor" and/or "discounted value" amounts in the collateral reports. If the change results in a deficiency, members will be notified directly.

Will the on-site collateral review frequency change now that the Bank is using market values to value my loans?

No. This change has no impact on the frequency and scope of collateral reviews.