

Maximize Borrowing Capacity with Voluntary Listing

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August 31, 2018

At FHLBank Boston, we dedicate significant resources to balancing the need to protect members' investment in the Bank with our mission to meet members' liquidity needs. In this brief article, I will explain how we determine member borrowing capacity and share some thoughts on how better data could improve capacity for a significant number of members.

Member collateral borrowing capacity is based on the combined results of loan pricing and haircut models. These processes are applied to all member residential and commercial real estate loans periodically during the year. The pricing models estimate values for loans based on key characteristics in the current rate environment. Haircuts are derived from the range of values, including estimated losses, in scenarios that stress market rates and credit conditions.

Residential Loan Pricing

Recently, we ran the residential loan pricing model for the detailed loan data submitted by 160 members. The results were used to update the borrowing capacity for each of those members. The overall results for the 30-year fixed-rate loans were also applied to the values of owner-occupied loans for the 218 members that file the qualified collateral report (QCR). These changes took effect in August and were made through the Adjustment field on the borrowing capacity report.

The analysis considered the detailed characteristics of 226,000 loans worth \$57 billion submitted by 40 percent of our bank and credit union members. Among the results, we found two factors that positively influence borrowing capacity while the latter two result in a reduction to it:

- 48 percent of the loans have original Loan to Value ratios under 70 percent
- 52 percent of the loans have FICO scores higher than 760
- Rising market rates since last October have reduced the average price of fixed rate loans by approximately 2 percent
- One to four- family residential loans to self-employed borrowers reduced the price another 40 basis points because of the greater perceived risk of default.

Data Quality

The last point highlights an important aspect of the pricing process - accurate data is critical to borrowing capacity. For example, a significant number of members leave the self-employed borrower field blank in their files, which defaults to "Yes" (the loan was made to a self-employed borrower) in the model. We know that is incorrect for most loans and would skew results negatively. We were able to reduce the effect of that and estimate a better value based on the findings from our periodic onsite residential collateral reviews.

Better Data Can Make a Difference

Members should take a close look at other variables that have a big impact on borrowing value. Some of the key ones include: borrower debt-to-income ratio, variable loan rate reset frequency, interest-only period, and, for commercial real estate loans, debt service coverage ratio. The collateral staff has recently begun an extensive effort to notify members of data quality issues that may be reducing their borrowing capacity. We hope that better data will add capacity and make a difference for the CECL models that many members are testing this year.

Qualified Collateral Report (QCR)

This month, all members who file a QCR received a 2.3 percent reduction to the book value of their owner-occupied residential loans, due to the previously mentioned impact of higher market rates and other variables. In contrast, less than 50 percent of the members who voluntarily file detailed loan listings experienced an adjustment. QCR filers are subject to the general lending practices and data quality provided by members that voluntarily list collateral with the Bank. These members receive values that reflect their own loan mix and quality.

I encourage you to consider voluntary listing if you are not doing so already. It will allow you to benefit from the most accurate valuation of your eligible collateral and thus maximize your borrowing capacity with the FHLBank Boston. To get started please contact our collateral staff. They are available to help you make the shift to voluntary listing.

For more information, please contact your relationship manager or a member of the collateral team through collateral@fhlbboston.com.