

FHLBank San Francisco

Mortgage Loan Collateral Field Review Process

Mortgage Loan Collateral Field Review

The credit policy of the Federal Home Loan Bank of San Francisco (Bank) requires all extensions of credit to be fully secured by eligible collateral. The Bank periodically conducts onsite field reviews of the pledged loan collateral to:

- Understand and assess the nature and liquidation value of the member's pledged loans
- Educate the member on the Bank's loan eligibility and pledging guidelines
- Determine the appropriate borrowing capacity of the member's pledged loan portfolio
- Protect all members' investment in the Bank by assessing the risk of loss on advances and other extensions of credit in the event of default by an individual member

Field Review Scope

- **Eligibility:** The loan type, loan purpose, underlying collateral, and loan documents are reviewed to ensure that the loans meet the Bank's guidelines.
- **Existence and Ownership:** The original loan documents are reviewed to confirm that there is perfected security interest in the underlying collateral and to ensure safe custody.
- **Composition and Quality:** The underwriting criteria and loan documents are reviewed to identify deficiencies and high-risk characteristics (e.g., subprime loans, missing or incorrect documents, updated financial statements).

Field Review Scope

- **Servicing:** Payment histories, real estate taxes, insurance, and other servicing-related items are reviewed to verify that the loans are being serviced according to industry standards.
- **Data Integrity:** For loans pledged under blanket lien with detailed reporting, the loan data reported on the Mortgage Collateral Update (MCU) is reviewed for accuracy.
- **Blanket Lien with Summary Reporting:** The review will confirm that the amount of loans ineligible to receive borrowing capacity is correctly identified on the Blanket Lien Collateral Eligibility Questionnaire–Summary Reporting and Blanket Lien Collateral Certification: Summary Reporting–Credit Unions forms.

Field Review Cycle

A member's mortgage loan collateral field review cycle is set at 6-, 12-, 24-, or 36-month intervals and is determined by:

- Financial condition
- Amount of outstanding credit
- Composition and risk profile of the loan collateral
- Turnover in loan collateral portfolio
- Results of the last collateral field review

Field Review Notification

Members that pledge via **Blanket Lien with Detailed Reporting** or **Specific Identification**:

- Notification occurs 4 weeks prior to the scheduled field review date.
- Notification will include:
 - Listing of sample loans selected for review
 - Field Review Required Materials List
 - Servicing and Origination Questionnaire
 - Non-Traditional Mortgage Questionnaire for Residential Lenders

Field Review Notification (continued)

Members that pledge via **Blanket Lien with Summary Reporting**:

- First notification occurs about 8 weeks before the scheduled review date and will include a request for an electronic listing or data file of loans receiving borrowing capacity and for the Bank's Blanket Lien Collateral Eligibility Questionnaire–Summary Reporting and Blanket Lien Collateral Certification: Summary Reporting–Credit Unions forms. (instructions in the Collateral Guide). Deadline: 30 to 45 days before review date.
- Second notification letter will be sent approximately 4 weeks prior to the scheduled review date. Notification will include:
 - Listing of sample loans selected for review
 - Field Review Required Materials List
 - Servicing and Origination Questionnaire
 - Non-Traditional Mortgage Questionnaire for Residential Lenders

Required Materials List

- **Collateral files** for sample loans should be organized in the same order as the loan list. Collateral files should include original notes, deeds of trust, and corporate assignments, if applicable. (If notes and deeds have been delivered to the Bank, please provide copies.)
- **Loan or credit files** should be organized by loan type in the same order as the loan list.
 - Loan files should include all modification agreements, title policies, appraisals, loan applications, credit reports, underwriter's analysis/worksheets, loan approval memos, income tax returns, and any other documents used for underwriting.
 - Loan files that are obtained from branch offices should be organized in the same order as the loan list or by branch and loan type in the order of the loan list.

Required Materials List (continued)

- **Loan payment histories** must be provided covering the last 12 months and must include the current interest paid-to-date and interest rate information for each sample loan.
- A list of dates through which **fire/hazard or flood insurance premiums** (if applicable) have been paid for sample loans should be provided.
- A list of dates through which **property taxes** have been paid for sample loans should be provided.
- For **income property loans** selected for review, a copy of the most recent rent roll and/or profit and loss statement, loan approval memorandum, asset review report, environmental report (Phase 1), and any legal correspondence.

Other Required Documents

- Report of pledged loans serviced by others
- Servicing and/or custodian agreements, if applicable
- Real estate loan policy and procedures
- Portfolio concentration and stratification reports
- Criticized and classified loan list
- Loan delinquency report
- Third-party loan review reports, internal/external audit reports, and results of quality control
- Stress test results or credit administration presentation to executive or loan committee or Board of Directors

Other Collateral Issues

- **Participation Loans:** The total unpaid principal balance and percentage owned must be reported on the member's MCU. Participation agreement should be available for review.
- **Custody:** Original legal documents, especially the promissory notes, should be kept in a secure fire-safe location. If a third party is in the possession of the original documents, such as in the case of a participation loan, a legal agreement (provided by the Bank) is required to be executed by the third-party servicer/custodian and approved by the Bank.
- **Loans Serviced by Others:** Servicer must be approved by the Bank; a copy of the servicer agreement is required and a Servicer Acknowledgement (provided by the Bank) must be executed.

Other Collateral Issues

- **Anti-Predatory Lending Policy:** Loans that do not comply with the Bank's Anti-Predatory Lending Policy are not eligible. See the [Collateral Guide](#) regarding the Bank's Anti-Predatory Lending guidelines.
- **Inter-Creditor Agreements:** Required if the member pledges loans to other entities (e.g., the Federal Reserve Bank or a corporate credit union)
- **MERS Loans:** If loan documents indicate MERS as the beneficiary, a MERS Electronic Tracking Agreement is required, and the MERS MIN number must be reported on the MCU.

Onsite Visit – Logistics

- **Location of the Review:** The review is conducted where credit administration and loan files are located. A separate visit to the member's custodian may be necessary.
- **Duration of the Review:** Usually one week or less.
- **Work Space:** Please provide a sufficient and dedicated work space with access to an unrestricted internet connection (wired or wireless).
- **Meetings:** Bank staff will meet with senior management, credit administration, and servicing personnel.

Onsite Review – What You Can Do To Prepare

Be Ready!

- **Loan Documentation:** Ensure that loan files and requested reports and documents are ready at the commencement of the review.
- **Questionnaires:** Ensure that questionnaires are completed, with required attachments.
- **Liaison:** Provide at least one employee to facilitate the review.
- **Loan Servicing/Vault Personnel:** Ensure that personnel are available for servicing and custody-related questions and a tour of the vault.
- **Management:** Should be available for interviews regarding the institution's lending strategy and credit risk management practices.

Field Review Results

- **Preliminary Results:** Preliminary results will be presented and findings discussed at the Exit Meeting.
- **Initial Results:** Initial results regarding non-credit secondary market discounts will be sent approximately 30 days after the conclusion of the field review. The results will contain:
 - Loan sample review results, including loan eligibility and loan level comments
 - Follow-up items, if any
- **Final Results:** Final results with quarterly and sample pricing and new borrowing capacities will be available approximately 30 to 90 days after the conclusion of the field review.

Bank Contact Information and Online Resources

- Your Relationship Manager
 - Member Financial Services (800) 444-3452
- Your Collateral Asset Manager
 - Collateral Services (800) 283-0700
 - Collateral Operations (415) 616-2980
- fhlsf.com
- Member website includes:
 - [Collateral Guide](#)
 - [Updates to Collateral Guide](#)
 - [Collateral Forms](#)