Federal Home Loan Bank of San Francisco

Collateral Guide

Revised July 28, 2017

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General Provisions

This **Collateral Guide** provides an overview of the collateral policies and procedures of the Federal Home Loan Bank of San Francisco. The Bank's **Credit Guide** provides general information on the Bank's credit policies and products. The specific terms and conditions of the Bank's financing programs and collateral requirements are contained in the applicable Bank agreements and transaction confirmations.

The Bank reserves the right to modify, revise, amend, or update this **Collateral Guide** from time to time.

In this **Collateral Guide**, a "business day" is a day on which the Bank is open to conduct credit transactions with its members, unless otherwise noted. All times referenced are California time, i.e., Pacific Standard Time or Pacific Daylight Time, as applicable in California for the time of year.

All extensions of credit from the Bank and certain other member obligations to the Bank must be fully secured by eligible collateral. These extensions of credit and other obligations include:

- Advances
- Standby Letters of Credit
- Credit enhancements for loans sold to the Bank under the Mortgage Partnership Finance® (MPF®) Program [1]

All collateral pledged to the Bank must comply with all applicable local, state, and federal laws, rules, regulations, or orders. Members must not pledge as collateral any assets that are unacceptable as set forth in this Collateral Guide, the Credit Guide, or any applicable Bank agreements and documents, each as amended from time to time.

Once the Bank has perfected its security interest in pledged collateral by filing a UCC-1 financing statement or taking delivery of the collateral, as applicable, the Bank assigns a "borrowing capacity" to the collateral. For each collateral type, the Bank applies a borrowing capacity percentage to the market value or unpaid principal balance of the eligible collateral, as determined by the Bank, to calculate the maximum amount the member may borrow against the pledged collateral.

At all times, the aggregate borrowing capacity of a member's pledged collateral must meet or exceed the total amount of the member's outstanding advances, other extensions of credit, and certain other member obligations and liabilities. (See Collateral Maintenance Requirement.)

Eligible Collateral

Eligible collateral types include:

- Securities
- Bank term deposits
- Mortgage loans and participations
- Small business, agribusiness, and farm loans

Bank membership is available to the following types of financial institutions:

- Federally insured commercial banks, savings institutions, and industrial loan companies
- Credit unions, including:
  - Federally insured credit unions
  - Privately insured, state-chartered credit unions
  - Credit unions that are certified by the Community Development Financial Institutions Fund (CDFI Fund) of the U.S. Department of the Treasury.
- Community development loan funds and venture capital funds that are certified as community development financial institutions by the CDFI Fund. For the purpose of the Collateral Guide, these organizations are referred to as "CDFIs."

[1] "Mortgage Partnership Finance" and "MPF" are registered trademarks of the Federal Home Loan Bank of Chicago.

- Insurance companies (excluding captive insurance companies)

All members are eligible to pledge the following collateral types:

- Treasury securities
- Agency securities
- AAA-rated senior commercial MBS (publicly registered)
- Bank term deposits
- Residential first lien mortgage loans without negative amortization
- Multifamily first lien mortgage loans
- Commercial first lien mortgage loans
- Retained participations in first lien mortgage loans (residential, multifamily, and commercial)

Commercial banks, credit unions, savings institutions, and industrial loan companies may also pledge:

- AAA and AA-rated senior residential MBS (publicly rated or private placement)
- AAA and AA-rated subordinated and mezzanine residential MBS (publicly rated)
- AAA-rated senior, subordinated, and mezzanine home equity loan asset-backed securities (publicly rated)
- AA-rated subordinated and mezzanine home equity loan asset-backed securities (publicly rated)
- AAA-rated subordinated and mezzanine commercial MBS (publicly rated)
- AAA- and AA-rated mortgage-related municipal bonds
- Residential first lien mortgage loans with negative amortization
- Residential second lien mortgage loans on single-family properties
- Home equity lines of credit (HELOCs)
- Purchased participations in first lien mortgage loans (residential, multifamily, and commercial)

In addition, community financial institution (CFI) members that meet certain credit criteria may receive borrowing capacity on small business, small agribusiness, and small farm loans. A CFI is an FDIC-insured depository institution with average total assets over the preceding three-year period of less than $1,148 million (as of January 1, 2017). This asset cap is adjusted each year by the Federal Housing Finance Agency based on the annual percentage increase in the Consumer Price Index.

Collateral Pledging

Pledging Securities

- All members are eligible to pledge securities as collateral under the Bank's Standard Credit Program and Securities-Backed Credit (SBC) Program.
- All pledged securities must be delivered to Citibank, N.A., the Bank's securities custodian.

Pledging Loans

The Bank offers the following methods for pledging eligible loan collateral:

Blanket Lien: Members may grant a blanket lien to the Bank on all loans secured by real estate; all loans made for commercial, corporate, or business purposes; and all participations in these loans, whether or not the individual loans are eligible to receive borrowing capacity. There are two blanket lien reporting methods: summary reporting, which is based on aggregate quarterly regulatory financial reports, and detailed reporting, which is based on quarterly detailed loan information provided by the member.

Small business, small agribusiness, and small farm loans must be pledged under blanket lien.

Specific Identification: Members may provide specific, detailed information about all the loans and participations pledged to the Bank on a monthly basis.

Delivery Required: Certain members are required to pledge loan collateral under blanket lien using detailed reporting and to deliver the notes and other related loan documents for pledged loan collateral to the Bank or to the Bank's custodian. This may be required for one or more of the following reasons:

- The member is subject to a regulatory enforcement action.
- The member's financial or operating condition is such that the Bank deems itself insecure.
- The member is undercapitalized, significantly undercapitalized, or critically undercapitalized, according to the PCA classifications.
- The member has unsatisfactory collateral monitoring and risk controls.
- The Bank deems delivery appropriate for any reason, as provided in the Bank's Advances and Security Agreement.

All members may pledge under blanket lien with detailed reporting (except insurance companies and non-depository CDFIs). Only members with higher credit quality profiles may pledge under specific identification or blanket lien with summary reporting. Insurance companies and non-depository CDFIs are required to pledge loans under specific identification and to deliver loan collateral.

Assignment of Borrowing Capacity

The Bank limits the amount it will lend to a member to a percentage of the market value (securities), assigned market value (real estate loan collateral), or unpaid principal balance (small business, agribusiness, and farm loans) of the member's pledged collateral, known as the borrowing capacity. The borrowing capacity percentage varies according to several factors, including the collateral type, the value assigned to the collateral, the pledging method used (specific identification or blanket lien), the amount of loan data provided (detailed or summary reporting), the member's financial strength and condition, the results of the Bank's collateral field review of the member's loan collateral, and member-specific collateral risks. Under the terms of the Bank's lending agreements, the aggregate borrowing capacity of a member's pledged eligible collateral must meet or exceed the total amount of the member's outstanding advances, other extensions of credit, and certain other member obligations and liabilities.

Once a quarter, the Bank uses external vendors to price all real estate loan collateral for which members provide detailed loan level information, including residential first and second lien mortgage loans, multifamily loans, and commercial loans. For real estate loan collateral pledged under specific identification or blanket lien with detailed reporting, the Bank uses market value prices from external pricing sources to assign a market value to the collateral. For real estate loan collateral pledged under blanket lien with summary reporting, the Bank uses the aggregate pricing results for all members to establish market value benchmarks for each collateral type.

The Bank applies a borrowing capacity percentage to the assigned market value of all real estate loan collateral to determine the borrowing capacity of the collateral. The borrowing capacity percentage is calculated as 100% minus the liquidation risk margin, which covers the expected costs and risks of liquidation and reflects the credit risk profile of the individual member.

For small business, agribusiness, and farm loans, the Bank applies a borrowing capacity percentage to the unpaid principal balance of the loans under all pledging options.

Loan Collateral Reviews

All pledged loan collateral is subject to periodic review by the Bank. The primary objectives of the loan collateral review are to:

- Understand and assess the nature and liquidation value of the pledged loans
- Educate the member on the Bank's loan eligibility and pledging guidelines
- Determine the appropriate borrowing capacity of a member's pledged loan portfolio
- Preserve the Bank's capital and member's equity by evaluating risk

The collateral review is designed to evaluate the following factors to assign the appropriate borrowing capacity to the member's pledged collateral portfolio:

- Eligibility
- Existence and ownership
- Composition and quality

- Servicing
- Custody
- Data integrity

The Bank conducts a review of a random, statistically valid sample of loans for each collateral type. The Bank prices the sample loans, taking into account the credit-related characteristics of the loans. The Bank also applies certain discounts for documentation or servicing deficiencies, delinquency, and other non-credit-related items (as determined by the Bank) to adjust the current borrowing capacity for pledged loans. (See the Field Review Discount Table.)

Collateral reviews are usually performed every 6, 12, 24, or 36 months. The frequency of a member's collateral review is determined by the following factors:

- Member's financial condition
- Amount of outstanding Bank credit secured by loan collateral
- Composition and risk profile of the loan collateral
- Turnover in the loan collateral portfolio
- Experience and results of the previous loan collateral review

During the course of the collateral review, Bank staff interview member management to understand the member's goals and operating objectives. All collateral review findings and requirements are documented in correspondence to the member, which covers the following:

- Loan sample review results
- Loan eligibility
- Loan borrowing capacity
- Follow-up requirements

Collateral Maintenance Requirement

Each member must pledge collateral with an aggregate borrowing capacity equal to the member's collateral maintenance level. The collateral maintenance level is equal to 100% (which may be increased or decreased at any time by the Bank) of the aggregate amount of all outstanding indebtedness of the member to the Bank, including the member's credit enhancement obligation for loans sold under the MPF Program. If a member's financial condition deteriorates considerably, as determined by the Bank, the Bank, in its sole discretion, may increase a member's collateral maintenance level to include any potential prepayment fees on outstanding Bank credit, the amount of any loans sold under the MPF Program that are subject to repurchase, or amounts associated with indemnifications for loans identified as exceptions to MPF guidelines that the Bank has agreed to retain.

If the borrowing capacity of a member's pledged collateral falls below its current collateral maintenance level, the member must immediately pledge additional eligible collateral to correct the deficiency. The most expedient method of curing a collateral deficiency is to pledge securities or cash (in the form of a Bank term deposit). If loan collateral is pledged to cure a deficiency and the member is subject to the delivery requirement, the Bank assumes no obligation to expedite the review and acceptance of such collateral.

Following notice from the Bank, any member failing to correct its collateral deficiency within 3 business days (or 1 business day under the Securities-Backed Credit Program) will be charged a deficiency premium. This premium, retroactive to the date of the notification of insufficient collateral, will accrue daily until the deficiency is corrected. The premium is calculated on the deficiency amount at an annual rate of 5% (prorated daily and subject to change by the Bank). For members experiencing moderate to severe credit issues, the Bank may require collateral deficiencies to be cured on the same day. Please contact your Relationship Manager for more information.

Any member not pledging additional eligible collateral within the time allowed by the Bank may be required to deliver all pledged collateral to the Bank.

The Bank, in its sole discretion, may require the member to deliver all pledged collateral at any time. The Bank also has the right to declare a default, pursuant to the Advances and Security Agreement, whenever there is a collateral deficiency and may, among other remedies, declare all or part of the member's outstanding Bank credit to be immediately due and payable. In the case of default, the Bank may also foreclose on and liquidate pledged collateral in an amount sufficient to satisfy the member's indebtedness to the Bank.

UCC-1 Financing Statement

The Bank perfects its security interest in all pledged collateral by filing a UCC-1 financing statement for each member with the applicable Secretary of State or filing office or by requiring delivery of pledged collateral.

The Bank's financing statement covers only assets that a member actually pledges to the Bank and in which a security interest can be perfected by the filing of a financing statement. Although some members may not have any collateral pledged to the Bank that can be perfected by the filing of a financing statement, the Bank files a financing statement for each member to ensure that each member will be able to borrow against any loan collateral that it pledges in the future. The filing of a financing statement does not affect assets that are not pledged to the Bank.

If another creditor has filed a UCC-1 financing statement prior to the Bank's filing that covers collateral that could be pledged to the Bank, the Bank may require the execution of an agreement or amendment to protect the Bank's interest in the collateral (see Intercreditor Agreement, Security Agreement Amendment, and Subordination Agreement) or may require delivery of the pledged collateral before granting borrowing capacity on the collateral.

Housing Associates

In general, this Collateral Guide is intended to apply to members and their subsidiaries and affiliates. Housing associates, including state housing finance agencies (SHFAs), may also pledge collateral to the Bank. All advances and extensions of credit made by the Bank to a housing associate and all indebtedness, obligations, and liabilities of a housing associate to the Bank must be adequately collateralized as provided in the regulations and the Advances and Security Agreement (as well as any other relevant agreements) between the Bank and the housing associate. Housing associates will be subject to collateral standards and procedures that are no less stringent than the standards and procedures applied to members.

A housing associate that is an SHFA may pledge the same types of collateral as Bank members.

A housing associate that is not an SHFA may pledge only the following types of collateral:

- Mortgage loans insured by the Federal Housing Administration (FHA) under Title II of the National Housing Act
- Ginnie Mae securities: Securities representing a whole interest in the principal and interest payments due on a pool of FHA-insured loans. These securities must be backed solely by FHA-insured loans.

The specific collateral eligibility, requirements, and procedures for housing associates are available upon request.

Anti-Predatory Lending Policy

The Federal Home Loan Bank of San Francisco ("Bank") supports the expansion of fair and equitable home ownership opportunities. To discourage predatory lending practices, which are inconsistent with such opportunities, and to protect the Bank from potential liabilities, the Bank has established the following anti-predatory lending policy ("APL Policy") with respect to residential mortgage loans (one-to-four units) and securities backed by residential mortgage loans (one-to-four units) pledged to it as collateral ("Residential Mortgage Collateral").

The Bank requires that Residential Mortgage Collateral comply with applicable federal, state and local anti-predatory lending laws and other similar credit-related consumer protection laws, regulations and orders designed to prevent or regulate abusive and deceptive lending practices and loan terms (collectively, "Anti-Predatory Lending Laws"). Any Residential Mortgage Collateral that does not comply with all applicable Anti-Predatory Lending Laws will be ineligible as collateral to support advances or other activity with the Bank. Additionally, the Bank will not give collateral value for any Residential Mortgage Collateral that has any of the following:

- An annual percentage rate, or points and fees, that exceed the thresholds of the Home Ownership and Equity Protection Act of 1994 and its implementing regulations (Federal Reserve Board Regulation Z); or
- A requirement that the borrower obtain prepaid, single-premium credit life, credit disability, credit unemployment, or other similar credit insurance (applies to originations after July 1, 2007); or
- Loan documents that contain mandatory arbitration provisions with respect to dispute resolution (applies to originations after July 1, 2007); or
- A prepayment penalty beyond the early years (five years) of the loans unless the member can show that all of the following criteria are met (applies to originations after July 1, 2007):
  - The mortgage provides a benefit to the borrower such as a rate or fee reduction for accepting the prepayment penalty provision; and
  - The borrower was offered a choice of another mortgage product that did not require a prepayment penalty; and
  - The terms of the prepayment provision were disclosed to and acknowledged by the borrower in writing; and
  - The prepayment penalty may not be charged when the mortgage debt is accelerated as the result of the borrower's default; and
  - The prepayment provisions comply with all applicable Anti-Predatory Lending Laws.

Pledgors are responsible for avoiding all unlawful practices and terms prohibited by applicable Anti-Predatory Lending Laws, regardless of whether they originate or purchase the Residential Mortgage Collateral being pledged to the Bank. The Bank will take those steps it deems reasonably necessary in order to confirm or monitor pledgors' compliance with this policy. In addition, the Bank reserves the right to require evidence reasonably satisfactory to the Bank that Residential Mortgage Collateral does not violate applicable Anti-Predatory Lending Laws. With respect to Residential Mortgage Collateral purchased by the pledgor, the pledgor is responsible for conducting due diligence that it deems sufficient to support its certification and indemnification agreements with the Bank.

Per the terms and conditions of the Bank's Advances and Security Agreement (as amended, modified or supplemented from time to time, "Advances Agreement"), each pledgor has represented and warranted to the Bank that it: (1) will comply at all times with the Bank's Credit and Collateral policies, which include this APL Policy; (2) will comply at all times with the requirements of all applicable laws, rules, regulations and orders, which include all applicable Anti-Predatory Lending Laws; and (3) will maintain eligible collateral and (a) will substitute eligible collateral for any Residential Mortgage Collateral that does not comply in all material respects with applicable laws, rules, regulations and orders, which include applicable Anti-Predatory Lending Laws, or this APL Policy; and (b) will indemnify, defend and hold the Bank harmless from and against all damages, liabilities, losses, claims, causes of action, and expenses (including attorneys' fees and expenses of the Bank's counsel), that result from the pledge of any Residential Mortgage Collateral that does not comply in all material respects with applicable laws, rules, regulations and orders, which include applicable Anti-Predatory Lending Laws, or this APL Policy. In addition, each member must periodically certify to the Bank that it understands and complies with this APL Policy and all applicable Anti-Predatory Lending Laws.

The Bank will not knowingly accept as eligible collateral Residential Mortgage Collateral that violates applicable Anti-Predatory Lending Laws or this APL Policy. If the Bank knows or discovers that such Residential Mortgage Collateral violates applicable Anti-Predatory Lending Laws or this APL Policy, the Bank may, in addition to all available rights and remedies at law or in equity (1) require the pledgor to substitute eligible collateral, (2) value such Residential Mortgage Collateral at zero for collateral purposes, and/or (3) require the pledgor to undertake a review of its policies, practices, and procedures for complying with the Bank's collateral policies.

For residential mortgage loans (one-to-four units) intended for sale to the Bank by members participating in the Mortgage Partnership Finance (MPF) Program, eligibility criteria are set forth in the MPF Program Origination Guide (OG) and applicable MPF Program agreements and documents, as amended from time to time. Chapter 2 of the OG specifies prohibited predatory practices. The Bank will consider all available rights and remedies, including repurchase, with respect to mortgage loans that do not meet MPF Program eligibility criteria.

Compliance with Interagency Guidance on Nontraditional and Subprime Mortgage Loans

The Office of the Comptroller of the Currency, Treasury; Board of Governors of the Federal Reserve System; Federal Deposit Insurance Corporation; Office of Thrift Supervision, Treasury; and National Credit Union Administration have issued joint Interagency Guidance on Nontraditional Mortgage Product Risks, dated October 4, 2006, and a joint Statement on Subprime Mortgage Lending, dated July 10, 2007 ("Interagency Guidance"). This Interagency Guidance was developed to clarify how institutions can offer nontraditional mortgage products and provide mortgages to subprime borrowers in a safe and sound manner.

The Bank will require periodic confirmations from members subject to federal or state regulatory oversight that all residential mortgage loans pledged to the Bank that were originated or acquired by the member after July 10, 2007, must comply with the Interagency Guidance.

The Bank will assess each member's compliance with the Interagency Guidance during the periodic collateral field review. Residential mortgage loans that were originated or acquired by each member after July 10, 2007, may receive borrowing capacity to secure advances only if those mortgage loans comply with all aspects of the Interagency Guidance.

The Bank limits the amount of borrowing capacity assigned to nontraditional and subprime loans originated or acquired prior to July 10, 2007, to 50% of a member's total borrowing capacity.

Private Label Mortgage-Backed Securities

Private label residential mortgage-backed securities (PLRMBS) that were issued after July 10, 2007, may receive borrowing capacity to secure advances only if members pledging the PLRMBS provide the Bank with an enforceable representation and warranty from the issuer that the residential loans underlying the PLRMBS comply with the Interagency Guidance. Members will need to provide a copy of the enforceable representation and warranty within 30 days of the pledge of the PLRMBS.

PLRMBS that were issued before July 10, 2007, and acquired by members after July 10, 2007, may receive borrowing capacity to secure advances only if the PLRMBS meet the following conditions:

- All mortgage loans in the underlying mortgage pool of the PLRMBS are subject to fully amortizing repayment schedules, and none of the mortgages allow the borrower to defer payment of principal or interest (that is, none of the mortgage loans have negative amortization or interest-only features).
- None of the mortgage loans in the underlying mortgage pool of the PLRMBS were made to a borrower with an original FICO score of less than 660. If the data for the original FICO score is missing for any loan in the mortgage pool, the PLRMBS will not be eligible to receive borrowing capacity.

Loans on Properties Encumbered by Certain Private Transfer Fee Covenants

In accordance with the Federal Housing Finance Agency's final rule, Restrictions on the Acquisition of, or Taking Security Interests in, Mortgages on Properties Encumbered by Certain Private Transfer Fee Covenants and Related Securities (12 CFR Part 1228), dated March 16, 2012, mortgage loans on properties encumbered by private transfer fee covenants will only be eligible to be pledged as collateral to the Bank if the covenants meet one of the following conditions:

- The covenant was created before February 8, 2011, or
- The covenant requires payment to a nonprofit mandatory membership organization, such as a homeowners' association, or a charitable organization, and the covenant limits the use of the transfer fees exclusively to purposes that provide a direct benefit to the real property encumbered by the covenant.

A private transfer fee is a transfer fee imposed by a covenant, restriction, or other similar document that is required to be paid in connection with or as a result of a transfer of title to real estate and is payable on a continuing basis each time a property is transferred (for a period of time or indefinitely). For the purposes of this requirement, a private transfer fee does not include fees, charges, payments, or other obligations that are imposed by or payable to the federal, state, or local government, or that defray actual costs of the transfer of the property, including transfer of membership in a homeowners' association or similar entity.

In accordance with these requirements, for all mortgage loans on properties subject to ineligible private transfer fee covenants, the member must depledge the loans (if pledging under specific identification) or notify the Bank so that the loans can be excluded from the calculation of borrowing capacity (if pledging under blanket lien). The Bank will review sample loans during the member's periodic collateral field reviews to identify any mortgage loans on properties encumbered by ineligible private transfer fee covenants and will exclude these loans from the calculation of the member's borrowing capacity.

These requirements also apply to mortgage-backed securities (MBS) that are pledged to the Bank. If a member becomes aware that a pledged MBS is backed by any mortgage loans with ineligible private transfer fee covenants, the member must notify the Bank, and the Bank will determine whether the MBS is ineligible to be pledged as collateral.

Intercreditor Agreement, Security Agreement Amendment, and Subordination Agreement

If a member has a security agreement with another creditor, such as the Federal Reserve Bank or another Federal Home Loan Bank, that allows the member to pledge the same types of loan collateral as the member pledges to the Bank, the Bank may require an Intercreditor Agreement (ICA). An ICA is a tri-party agreement among the member, the other creditor, and the Bank that is intended to facilitate the member's ability to pledge the same types of loan collateral to more than one secured creditor and to identify the loan collateral that is pledged to each creditor.

If a credit union member has a security agreement with a corporate credit union that allows the member to pledge the same types of loan collateral to the corporate credit union as the member pledges to the Bank, the Bank may require the member to obtain an amendment to the security agreement to eliminate any ambiguity regarding the pledged collateral. If the corporate credit union is unable to execute the amendment, the Bank may allow the use of a Subordination Agreement.

- The amendment to the credit union member's security agreement with its corporate credit union excludes the collateral pledged by the credit union member to the Bank from the scope of the collateral covered by the corporate credit union security agreement. The form of this amendment is provided by the Bank.
- A Subordination Agreement is a tri-party agreement among the member, the corporate credit union, and the Bank that confirms the Bank's first priority interest in the collateral pledged to it and includes an express agreement by the corporate credit union to subordinate to the Bank at all times (i) any interest it may have in the collateral pledged to the Bank and (ii) any repayment obligation the member may have to the corporate credit union. The form of the Subordination Agreement is also provided by the Bank.

If the Bank requires an ICA, security agreement amendment, or Subordination Agreement, and the member does not obtain the appropriate agreement or amendment, the Bank may place the member on delivered status.

For more information on the ICA, security agreement amendment, and Subordination Agreement, please contact your Relationship Manager.

OFAC Policy

The Office of Foreign Assets Control (OFAC) of the U.S. Department of the Treasury issues regulations implementing Executive Order 13224, "Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism." The Executive Order and the OFAC regulations prohibit U.S. persons from entering into transactions with specifically identified persons who have committed, pose a significant risk of committing, or support acts of terrorism and require U.S. persons to block all property and interests of property of specifically identified persons that are in the United States or that come within the possession or control of U.S. persons. The OFAC publishes a list of Specifically Designated Nationals and Blocked Persons (OFAC List) on its website identifying those persons whose property or interests in property are blocked.

The Bank has determined that extensions of credit and other transactions involving members, participating financial institutions, housing associates, and other third parties (such as letter of credit beneficiaries) are subject to the OFAC regulations. Notwithstanding any provision of this Collateral Guide or any agreement or document with any member, participating financial institution, housing associate, or other third party, the Bank will not knowingly enter into any transaction with any member, participating financial institution, housing associate, or other third party that is identified on the OFAC List. These transactions include without limit, extending advances, issuing letters of credit, purchasing MPF loans, accepting collateral, and investing in mortgage-backed securities.

The Bank requires its members, MPF participating financial institutions, housing associates, nonmember borrowers, and other third parties to be aware of, and fully comply with, all applicable OFAC laws and regulations as well as all other applicable federal, state, and local laws and regulations.

Anti-Money Laundering Policy

Pursuant to the Bank Secrecy Act, the Financial Crimes Enforcement Network, a bureau of the Department of the Treasury, issued a final rule regarding Anti-Money Laundering (AML) Program and Suspicious Activity Report Filing Requirements for Housing Government Sponsored Enterprises, dated February 25 and effective August 25, 2014. This rule requires Bank to establish an AML program and report suspicious activity, which is intended to help prevent fraud and other financial crimes.

Accordingly, the Bank has established an AML program and will file Suspicious Activity Reports when warranted, including but not limited to suspicious activity in connection with Bank products and services such as advances, letters of credit, collateral and MPF loans.

Securities Eligibility

Securities Pledging Programs

All members are eligible to pledge securities as collateral under the Bank's Standard Credit Program and Securities-Backed Credit (SBC) Program. For information on how to pledge and release securities, see Securities Services.

A member may secure borrowings under the Standard Credit Program and the Securities-Backed Credit Program with a variety of Eligible Securities. The maturity of borrowings may range from 1 day to 30 years, depending on the type of credit product and the maximum term available to a member under its Financing Availability.

Securities-Backed Credit (SBC) Program

Under the SBC Program, interest rates may be lower than rates on advances under the Bank's Standard Credit Program and competitive with rates in the repurchase market.

100% Borrowing on the Market Value of Securities

If a member pledges loan collateral to the Bank, the member may be able to borrow up to 100% of the current market value of its eligible securities pledged under the SBC Program by using the borrowing capacity of that loan collateral to meet its margin requirements. If a member pledges only securities collateral, the member may borrow an amount equal to the borrowing capacity assigned to its pledged securities collateral.

- The Bank manages the margin calls for SBC securities collateral on an aggregate basis for each member.
- Loan collateral may be used to secure up to 10% of the amount of all SBC advances outstanding. The member will be required to pledge additional eligible securities if:
  - The member's borrowing capacity for securities pledged under the SBC Program falls below 90% of the current amount of the member's total SBC advances outstanding, or
  - The member's loan collateral does not have sufficient excess borrowing capacity.
- When the current borrowing capacity of a member's SBC securities collateral falls below 90% of its SBC advances outstanding, the member is required to pledge additional eligible securities under the SBC Program to increase the current borrowing capacity of SBC securities collateral to 95% or greater of the total amount of the member's SBC advances outstanding.
- Loan collateral that is being used to meet a member's margin requirement under the SBC Program is not available to collateralize other Bank credit.
- The Bank will not release securities collateral pledged under the SBC Program if the member is using loan collateral to meet the margin requirements.

SBC Margin Requirements and Margin Calls: Example

The following example shows how the Bank would manage the margin requirements and margin calls under the SBC Program for members that also pledge loan collateral, assuming that only one type of security has been pledged. For members that pledge a variety of security types, the Bank will assign the appropriate borrowing capacity to each security according to the security type and then determine the total borrowing capacity of the member's SBC collateral.

Assumptions:
Security Type: Agency MBS Passthrough
Security Borrowing Capacity: 95%
Required Margin: 5%

Day 1:
SBC Advances Outstanding: $100,000,000
Market Value of SBC Securities: $100,000,000
Borrowing Capacity of SBC Securities: $95,000,000

Borrowing Capacity of Loan Collateral: $5,000,000

Day 30:
Change: 3% paydown of securities collateral
SBC Advances Outstanding: $100,000,000
Market Value of SBC Securities: $97,000,000
Borrowing Capacity of SBC Securities: $92,150,000
Required Borrowing Capacity of Loan Collateral: $7,850,000

Since the borrowing capacity of the SBC securities is 92% of total SBC advances outstanding, no securities margin call is required.

Day 60:
Change: 3% paydown and 2% price reduction of securities collateral
SBC Advances Outstanding: $100,000,000
Market Value of SBC Securities: $92,000,000
Borrowing Capacity of SBC Securities: $87,400,000

Since the borrowing capacity of the SBC securities has fallen below 90% of total SBC advances outstanding, a securities margin call is required to bring the borrowing capacity of all SBC securities to 95% of total SBC advances outstanding.

Required Borrowing Capacity of Newly Pledged SBC Securities: $7,600,000
Required Market Value of Newly Pledged SBC Securities: $8,000,000
Required Borrowing Capacity of Loan Collateral: $5,000,000

SBC Collateral Status After New Pledge on Day 60:
SBC Advances Outstanding: $100,000,000
Market Value of SBC Securities: $100,000,000
Borrowing Capacity of SBC Securities: $95,000,000
Borrowing Capacity of Loan Collateral: $5,000,000

Eligible Securities: Borrowing Capacity Tables

Table I: Commercial Banks, Credit Unions, Savings Institutions, and Industrial Loan Companies

Eligible Securities	Borrowing Capacity as a Percentage of Market Value [1]
Treasury	
Treasury Bills	98
Treasury Notes and Bonds (remaining maturity < 5 years)	98
Treasury Notes and Bonds (remaining maturity ≥ 5 years)	95
Agency	
Discount Notes	97
Debenture Notes & Bonds	97
Agency MBS Passthrough Securities	95
GNMA Home Equity Conversion Mortgage (HECM) MBS Passthrough Securities	95
Agency CMOs (FHLMC, FNMA, GNMA)	93
GNMA HECM Real Estate Mortgage Investment Conduit (REMIC) Securities	93
Agency CMO Accrual Bonds (Z-tranches) with low price sensitivity [2]	93
Agency CMO Accrual Bonds (Z-tranches) with high price sensitivity [2]	75
Structured Notes	90
Index Amortization Notes (P.S.A. Linked Notes)	95
Small Business Administration Pools	93
SBA-Guaranteed CDC Participation Certificates	93
SBA-Guaranteed SBIC Debenture Participation Certificates	93
FDIC Structured Sale Guaranteed Notes	95
NCUA Guaranteed Notes	95
Private Label Non-Agency MBS [3, 4]	
Publicly Registered	
AAA Senior Residential MBS [5]	85
AA Senior Residential MBS [5]	75
AAA Subordinated and Mezzanine Residential MBS	75
AA Subordinated and Mezzanine Residential MBS	70
AAA Senior Home Equity ABS	75
AAA Subordinated and Mezzanine Home Equity ABS	70
AA Subordinated and Mezzanine Home Equity ABS	65
AAA Senior Commercial MBS [6]	80
AAA Subordinated and Mezzanine Commercial MBS [6]	75
Private Placement – Book Entry or Physical Delivery	
AAA Senior Residential MBS [5]	75
AA Senior Residential MBS [5]	65
AAA or AA Mortgage-Related Municipal Bonds [4, 7]	80
Tax-Exempt Mortgage-Backed Securities (TEMS)	90
Mutual Fund Shares	75
Bank Term Deposits	100

Notes:

1. **Market Value**
   Market value for securities pledged as collateral under the Bank's Standard Credit Program or SBC Program is determined by the Bank on the basis of market prices (bid side) for the same or comparable securities, if available, or as otherwise determined by the Bank. A readily available price is a precondition for acceptance of a security as collateral. This means, in general, that the security is either priced by a third-party pricing service or that its cash flow is modeled on Bloomberg or Yield Book.
2. **Agency CMO Accrual Bonds (Z-Tranches)**
   Agency CMO accrual bonds (Z-tranches) with low price sensitivity are identified as those that pass the Federal Financial Institutions Examination Council (FFIEC) High Risk Security test. Agency CMO accrual bonds (Z-tranches) with high price sensitivity are identified as those that do not pass the FFIEC High Risk Security test.
3. **Private Label Non-Agency MBS**
   If the custodian of the notes supporting a non-Agency MBS transaction is the Issuer or a related party and the notes have not been endorsed to the trustee by name, the Bank requires that the party that has control over the notes (as determined by the Bank) must have a long-term debt rating of at least BBB. The Bank will monitor the creditworthiness of the entity that has control over the notes; if the entity's credit rating falls below BBB, the Bank will require the member to substitute collateral in place of the MBS unless the underlying notes have been endorsed or delivered to the trustee.
4. **Review of Ratings**
   The Bank will periodically re-evaluate non-Agency securities and municipal bonds to validate or establish the ratings at intervals deemed appropriate by the Bank.
5. **A or BBB Senior Residential MBS**
   The Bank may assign a borrowing capacity to A or BBB non-Agency senior residential MBS (publicly registered or private placements). A or BBB senior residential MBS are not eligible for initial pledging or to secure new member obligations to the Bank, but may receive borrowing capacity if the MBS were downgraded to a credit rating of A or BBB after pledging.
6. **AAA Commercial MBS**
   Commercial MBS secured by a single property, a single loan, or a single borrower are not eligible.
7. **AAA or AA Municipal Bonds**
   The Bank may also accept AAA or AA municipal bonds that are not mortgage-related if they are used to secure a Standby Letter of Credit issued by the Bank for the account of the member for the purpose of residential housing or community lending. These bonds are also subject to the periodic ratings review described in note 4.

Table II: Insurance Companies with Highest Credit Quality Ratings [1]

Eligible Securities	Borrowing Capacity as a Percentage of Market Value [2] Effective Duration [3] 0-3%	>3-5%	>5-10%	>10
Treasury				
Treasury Bills	97	NA	NA	NA
Treasury Notes and Bonds (remaining maturity < 5 years)	97	94	NA	NA
Treasury Notes and Bonds (remaining maturity ≥ 5 years)	NA	94	90	77
Agency				
Discount Notes	97	94	90	77
Debenture Notes & Bonds	97	94	90	77
Agency MBS Passthrough Securities	95	94	90	77
GNMA Home Equity Conversion Mortgage (HECM) MBS Passthrough Securities	95	94	90	77
Agency CMOs (FHLMC, FNMA, GNMA)	93	93	90	77
GNMA HECM Real Estate Mortgage Investment Conduit (REMIC) Securities	93	93	90	77
Agency CMO Accrual Bonds (Z-tranches) with low price sensitivity [4]	93	93	90	77
Agency CMO Accrual Bonds (Z-tranches) with high price sensitivity [4]	75	75	75	75
Structured Notes	90	90	90	77
Index Amortization Notes (P.S.A. Linked Notes)	95	94	90	77
Small Business Administration Pools	93	93	90	77
SBA-Guaranteed CDC Participation Certificates	93	93	90	77
SBA-Guaranteed SBIC Debenture Participation Certificates	93	93	90	77
FDIC Structured Sale Guaranteed Notes	95	94	90	77
NCUA Guaranteed Notes	95	94	90	77
Private Label Non-Agency MBS [5, 6]				
Publicly Registered				
AAA Senior Commercial MBS [7]	70	70	70	70
Bank Term Deposits	100	100	100	100

Notes

1. **Insurance Company Credit Risk Profile**
The Bank assesses the credit quality of each insurance company member to determine whether it will receive the borrowing capacity percentages shown in Table II or Table III. Members that qualify for the borrowing capacities shown in Table II have the Bank's highest credit quality ratings, which typically correspond to external credit ratings of AAA or AA, while members that qualify for the borrowing capacities in Table III have high credit quality ratings from the Bank, which typically correspond to an external credit rating of A.

2. **Market Value**
Market value for securities pledged as collateral under the Bank's Standard Credit Program or SBC Program is determined by the Bank on the basis of market prices (bid side) for the same or comparable securities, if available,

or as otherwise determined by the Bank. A readily available price is a precondition for acceptance of a security as collateral. This means, in general, that the security is either priced by a third-party pricing service or that its cash flow is modeled on Bloomberg or Yield Book.

3. **Effective Duration**
In addition to the effective duration measure, the Bank may consider other criteria when assessing the price sensitivity of a pledged security and may assign the security to a higher margin category as a result of its assessment.

4. **Agency CMO Accrual Bonds (Z-Tranches)**
Agency CMO accrual bonds (Z-tranches) with low price sensitivity are identified as those that pass the Federal Financial Institutions Examination Council (FFIEC) High Risk Security test. Agency CMO accrual bonds (Z-tranches) with high price sensitivity are identified as those that do not pass the FFIEC High Risk Security test.

5. **Private Label Non-Agency MBS**
If the custodian of the notes supporting a non-Agency MBS transaction is the Issuer or a related party and the notes have not been endorsed to the trustee by name, the Bank requires that the party that has control over the notes (as determined by the Bank) must have a long-term debt rating of at least BBB. The Bank will monitor the creditworthiness of the entity that has control over the notes; if the entity's credit rating falls below BBB, the Bank will require the member to substitute collateral in place of the MBS unless the underlying notes have been endorsed or delivered to the trustee.

6. **Review of Ratings**
The Bank will periodically re-evaluate non-Agency securities and municipal bonds to validate or establish the ratings at intervals deemed appropriate by the Bank.

7. **AAA Commercial MBS**
Commercial MBS secured by a single property, a single loan, or a single borrower are not eligible.

Table III: Insurance Companies with High Credit Quality Ratings [1] and Non-Depository CDFIs [2]

Eligible Securities	Borrowing Capacity as a Percentage of Market Value [3] Effective Duration [4] 0-3%	>3-5%	>5-10%	>10%
Treasury				
Treasury Bills	95	NA	NA	NA
Treasury Notes and Bonds (remaining maturity < 5 years)	95	90	NA	NA
Treasury Notes and Bonds (remaining maturity ≥ 5 years)	NA	90	85	68
Agency				
Discount Notes	95	90	85	68
Debenture Notes & Bonds	95	90	85	68
Agency MBS Passthrough Securities	95	90	85	68
GNMA Home Equity Conversion Mortgage (HECM) MBS Passthrough Securities	95	90	85	68
Agency CMOs (FHLMC, FNMA, GNMA)	93	90	85	68
GNMA HECM Real Estate Mortgage Investment Conduit (REMIC) Securities	93	90	85	68
Agency CMO Accrual Bonds (Z-tranches) with low price sensitivity) [5]	93	90	85	68
Agency CMO Accrual Bonds (Z-tranches) with high price sensitivity) [5]	75	75	75	75
Structured Notes	90	90	85	68
Index Amortization Notes (P.S.A. Linked Notes)	95	90	85	68
Small Business Administration Pools	93	90	85	68
SBA-Guaranteed CDC Participation Certificates	93	90	85	68
SBA-Guaranteed SBIC Debenture Participation Certificates	93	90	85	68
FDIC Structured Sale Guaranteed Notes	95	90	85	68
NCUA Guaranteed Notes	95	90	85	68
Private Label Non-Agency MBS [6, 7]				
Publicly Registered				
AAA Senior Commercial MBS [8]	70	70	70	70
Bank Term Deposits	100	100	100	100

Notes

1. **Insurance Company Credit Risk Profile**
The Bank assesses the credit quality of each insurance company member to determine whether it will receive the borrowing capacity percentages shown in Table II or Table III. Members that qualify for the borrowing capacities shown in Table II have the Bank's highest credit quality ratings, which typically correspond to external credit ratings of AAA or AA, while members that qualify for the borrowing capacities in Table III have high credit quality ratings from the Bank, which typically correspond to an external credit rating of A.

2. **Non-Depository CDFI Credit Risk Profile**
Non-depository CDFIs include community development loan funds and venture capital funds that are certified by the CDFI Fund. The credit quality rating assigned to each non-depository CDFI member is based on a

variety of factors, including the status of CDFIs as non-publicly traded, non-regulated companies that are generally small in asset size.

3. **Market Value**
Market value for securities pledged as collateral under the Bank's Standard Credit Program or SBC Program is determined by the Bank on the basis of market prices (bid side) for the same or comparable securities, if available, or as otherwise determined by the Bank. A readily available price is a precondition for acceptance of a security as collateral. This means, in general, that the security is either priced by a third-party pricing service or that its cash flow is modeled on Bloomberg or Yield Book.

4. **Effective Duration**
In addition to the effective duration measure, the Bank may consider other criteria when assessing the price sensitivity of a pledged security and may assign the security to a higher margin category as a result of its assessment.

5. **Agency CMO Accrual Bonds (Z-Tranches)**
Agency CMO accrual bonds (Z-tranches) with low price sensitivity are identified as those that pass the Federal Financial Institutions Examination Council (FFIEC) High Risk Security test. Agency CMO accrual bonds (Z-tranches) with high price sensitivity are identified as those that do not pass the FFIEC High Risk Security test.

6. **Private Label Non-Agency MBS**
If the custodian of the notes supporting a non-Agency MBS transaction is the Issuer or a related party and the notes have not been endorsed to the trustee by name, the Bank requires that the party that has control over the notes (as determined by the Bank) must have a long-term debt rating of at least BBB. The Bank will monitor the creditworthiness of the entity that has control over the notes; if the entity's credit rating falls below BBB, the Bank will require the member to substitute collateral in place of the MBS unless the underlying notes have been endorsed or delivered to the trustee.

7. **Review of Ratings**
The Bank will periodically re-evaluate non-Agency securities and municipal bonds to validate or establish the ratings at intervals deemed appropriate by the Bank.

8. **AAA Commercial MBS**
Commercial MBS secured by a single property, a single loan, or a single borrower are not eligible.

Eligible Securities: Definitions

Treasury

Debt instruments issued by the U.S. Treasury.

- **Treasury Bills** – A short-term discounted government debt instrument with a maturity of 1 year or less.
- **Treasury Notes** – A medium-term government debt instrument issued at par with a maturity of 1 to 10 years.
- **Treasury Bonds** – A long-term government debt instrument issued at par with a maturity of at least 10 years.

Agency

Securities issued by certain federally related institutions and government-sponsored enterprises.

- **Discount Notes** – An unsecured, general corporate obligation issued at a discount that has an original term of less than 1 year.
- **Debenture Notes & Bonds** – An unsecured note or bond that has an original term of 1 year or more.
- **Agency MBS Passthrough Securities** – A debt instrument that is collateralized by a pool of residential or multifamily real estate loans. The mortgage payments of the individual real estate assets are used to pay interest and principal on the bonds.
- **Ginnie Mae Home Equity Conversion Mortgage (HECM) MBS Passthrough Securities (GN HMBS)** – A debt instrument that is collateralized by a pool of home equity conversion mortgage (HECM) loan participations under the Ginnie Mae II Custom Program. A HECM is a reverse mortgage originated under the guidelines of the Home Equity Conversion Mortgage program as set forth by the Department of Housing and Urban Development. The loans are originated by lending institutions and guaranteed by the Federal Housing Association.
- **Agency CMOs (REMICs)** – A type of mortgage-backed security that pays a specified share of the cash flows from an underlying mortgage pool. Not all are eligible: contact Collateral Operations.
- **Ginnie Mae HECM REMIC Securities (GN HREMIC)** – A debt security backed by Ginnie Mae HECM MBS pools that is typically issued in structured form (i.e., as a collateralized mortgage obligation, or CMO).
- **Agency CMO Accrual Bonds (Z-tranches)** – A security that accrues interest in lieu of paying interest for a number of years. During the accrual period, the interest cash flows at the coupon rate are added to the outstanding principal balance instead of being paid to the investor. Agency CMO accrual bonds (Z-tranches) with low price sensitivity are identified as those that pass the Federal Financial Institutions Examination Council (FFIEC) High Risk Security test. Agency CMO accrual bonds (Z-tranches) with high price sensitivity are identified as those that do not pass the FFIEC High Risk Security test. Not all are eligible: contact Collateral Operations.
- **Structured Notes** – A hybrid security that combines a fixed-income instrument with a series of derivative components. Not all are eligible: contact Collateral Operations.
- **Index Amortization Notes** – A specific type of structured note with embedded options that entitles the issuer to pay down the remaining principal balance on a monthly schedule linked to the prepayment behavior of a stated reference pool. Not all are eligible: contact Collateral Operations.
- **Small Business Administration (SBA) Pools** – A debt instrument issued by the SBA, a government agency, which is collateralized by SBA-guaranteed loans.
- **SBA-Guaranteed CDC Participation Certificates** – An interest in a pool of debentures that are issued by Certified Development Companies (CDCs) participating in the SBA's CDC/504 Loan Program.
- **SBA-Guaranteed SBIC Debenture Participation Certificates** – An interest in a pool of debentures that are issued by Small Business Investment Companies (SBICs) licensed by the SBA.
- **Federal Deposit Insurance Corporation (FDIC) Structured Sale Guaranteed Notes** – An FDIC-issued note that is a securitization of mortgage assets from failed bank receiverships and conservatorships. The timely payment of principal and interest due on the notes must be guaranteed by the FDIC, and that guaranty must be backed by the full faith and credit of the U.S. government.

- **National Credit Union Administration (NCUA) Guaranteed Notes** – An NCUA-issued note that is a securitization of mortgage assets from failed credit union receiverships and conservatorships. The timely payment of principal and interest due on the notes must be guaranteed by the NCUA, and that guaranty must be backed by the full faith and credit of the U.S. government.

Private Label Non-Agency MBS

The Office of the Comptroller of the Currency, Treasury; Board of Governors of the Federal Reserve System; Federal Deposit Insurance Corporation; Office of Thrift Supervision, Treasury; and National Credit Union Administration have issued joint Interagency Guidance on Nontraditional Mortgage Product Risks, dated October 4, 2006, and a joint Statement on Subprime Mortgage Lending, dated July 10, 2007 ("Interagency Guidance"). This Interagency Guidance was developed to clarify how institutions can offer nontraditional mortgage products and provide mortgages to subprime borrowers in a safe and sound manner.

Private label residential MBS (PLRMBS) that were issued after July 10, 2007, may receive borrowing capacity to secure advances only if members pledging the PLRMBS provide the Bank with an enforceable representation and warranty from the issuer that the residential loans underlying the PLRMBS comply with the Interagency Guidance. Members will need to provide a copy of the enforceable representation and warranty within 30 days of the pledge of the PLRMBS.

PLRMBS that were issued before July 10, 2007, and acquired by members after July 10, 2007, may receive borrowing capacity to secure advances only if the PLRMBS meet the following conditions:

- All mortgage loans in the underlying mortgage pool of the PLRMBS are subject to fully amortizing repayment schedules, and none of the mortgages allow the borrower to defer payment of principal or interest (that is, none of the mortgage loans have negative amortization or interest-only features).
- None of the mortgage loans in the underlying mortgage pool of the PLRMBS were made to a borrower with an original FICO score of less than 660. If the data for the original FICO score is missing for any loan in the mortgage pool, the PLRMBS will not be eligible to receive borrowing capacity.

Publicly Registered

A publicly registered security that is collateralized by mortgage loans and is offered for sale in a public offering. Such offerings are registered with the Securities Exchange Commission (SEC). Not all are eligible: contact Collateral Operations.

- **AAA and AA Residential MBS (Senior Tranches)** – A type of mortgage-backed security that pays a specified share of the cash flows from an underlying pool of residential mortgage loans.
- **AAA and AA Subordinated and Mezzanine Residential MBS** – Mortgage-backed securities that absorb credit losses from the underlying collateral pool of residential mortgage loans prior to the senior tranches. A mezzanine tranche provides credit support to the senior tranches and is in turn supported by other subordinated tranches with a lower rating.
- **AAA and AA Home Equity ABS (Senior Tranches)** – A security that is collateralized by closed-end, fully amortizing home equity loans.
- **AAA and AA Subordinated and Mezzanine Home Equity ABS** – A security that is collateralized by closed-end, fully amortizing home equity loans. Absorbs credit losses from the underlying collateral pool prior to the senior tranches. A mezzanine tranche provides credit support to the senior tranches and is in turn supported by other subordinated tranches with a lower rating.
- **AAA Commercial MBS (Senior Tranches)** – A securitization of a mortgage loan or a pool of mortgage loans backed by commercial real estate such as office buildings, hotels, as well as retail, industrial, or multifamily property.
- **AAA Subordinated and Mezzanine Commercial MBS** – Mortgage-backed securities that absorb credit losses from the underlying collateral pool of commercial mortgage loans prior to the senior tranches. A mezzanine tranche provides credit support to the senior tranches and is in turn supported by other subordinated tranches with a lower rating.

Private Placement – Book Entry or Physical Delivery

A security that is collateralized by mortgage loans and is offered for sale to an institutional investor through private negotiations rather than through a public offering. Such private placements are not registered with the SEC. Not all are eligible: contact Collateral Operations.

- **AAA and AA Residential MBS (Senior Tranches)** – A type of mortgage-backed security that pays a specified share of the cash flows from an underlying pool of residential mortgage loans.

AAA or AA Mortgage-Related Municipal Bonds

- AAA mortgage-related revenue bonds payable from residential or multifamily mortgage loan payments, some of which are also secured by various insurance and/or state or federal support programs. Not all are eligible: contact Collateral Operations.
- Municipal bonds that are not mortgage-related or for which the information provided by the member is not sufficient to establish regulatory eligibility are not eligible.

Tax-Exempt Mortgage-Backed Securities (TEMS)

- Tax-exempt mortgage-backed securities (TEMS) are issued by a state housing authority to finance real estate for state residents. The housing authority sells originated residential loans to Ginnie Mae, Fannie Mae, or Freddie Mac, which packages the loans into a mortgage-backed security (MBS). The housing authority issues a TEMS backed entirely by the cash flow and collateral of that single Agency MBS, with an identical coupon. TEMS are unrated and may be exchanged for the underlying taxable Agency MBS on demand.

Mutual Fund Shares

- Mutual fund shares are registered, publicly traded, investment vehicles with assets that are pooled and sold in shares. The pro rata value of these shares varies with the movement of the fund's net assets value.
- Eligible mutual funds must hold a combination of eligible residential and multifamily mortgage assets, eligible government securities, cash or cash equivalents. The fund must be open-ended and have a ticker symbol. Not all are eligible: contact Collateral Operations.

Bank Term Deposits

Term deposits offered by the Federal Home Loan Bank of San Francisco to its members. See Bank Term Deposits.

Ineligible Securities

Ineligible securities include, but are not limited to:

- Agency & non-Agency CMO tranche types: interest only, principal only, inverse floaters
- Subordinated and mezzanine commercial MBS rated AA or lower
- Subordinated and mezzanine non-Agency MBS rated A or lower
- Subordinated and mezzanine home equity ABS rated A or lower
- Corporate bonds
- Commercial paper
- Preferred and common stock
- Securities backed by high-cost loans (see Anti-Predatory Lending Policy)
- Securities backed by OFAC loans (see OFAC Policy)
- Securities backed by nontraditional and subprime mortgage loans that do not comply with current regulations or regulatory guidance or directives (see Compliance with Interagency Guidance on Nontraditional and Subprime Mortgage Loans)
- Non-Agency re-securitizations (re-REMICs)
- Securities backed by mortgage loans on properties encumbered by private transfer fee covenants created on or after February 8, 2011, that do not meet the Bank's guidelines: See Loans on Properties

Encumbered by Certain Private Transfer Fee Covenants.

Delivery

All securities collateral pledged to the Bank must be delivered to the Bank's securities custodian, Citibank. (See Securities Services.)

Substitution of Securities

Members may substitute like or better securities collateral, in the Bank's discretion, provided that (i) the substitution would not cause the aggregate borrowing capacity of all collateral pledged by the member to the Bank to fall below the member's required collateral maintenance level or (ii) the member is not in default. All substitutions of securities collateral are subject to the Bank's standard securities services fees. Contact Collateral Operations to verify eligibility for substitution.

Bank Term Deposits

Members may pledge term deposits with the Bank as collateral. To place a term deposit with the Bank, the member must call the Member Financial Services Desk by 12 noon to establish the interest rate and term of the deposit. To pledge a Bank term deposit, the member must fax a completed Pledge of Time Deposit Account (FC 1722) signed by an authorized signer to Collateral Operations at 415-616-2835 by 12 noon on the day of the pledge.

Bank term deposits are eligible for a borrowing capacity of 100%. See Eligible Securities: Borrowing Capacity Tables.

Securities Services

All members are eligible to pledge securities as collateral under the Bank's Standard Credit Program and Securities-Backed Credit (SBC) Program. All securities pledged to the Bank must be delivered to the Bank's securities custodian, Citibank, N.A.

To facilitate the pledging of securities and to allow members to consolidate all their securities holdings with one custodian, the Bank also offers safekeeping services for unpledged securities.

The Bank provides the following securities services:

- Holding of securities at the Bank's securities custodian
- Movement of securities between pledged and unpledged accounts
- Settlement through the member's Settlement/Transaction Account (STA) for delivery of securities, principal and interest payments, dividends, full or partial call payments, maturity payments, or other securities transactions
- Execution of Notices of Corporate Actions
- Daily transaction reporting and monthly holdings reporting provided on the Bank's member portal.
- Transfers, research, and filing of claims, when necessary, performed by the Bank's Securities Specialists

Account Set-Up

The Bank establishes two securities accounts with its securities custodian for each member that delivers securities to the Bank – one for securities pledged as collateral to the Bank and one for unpledged securities held in safekeeping. The Bank's securities custodian requires 48 – 72 hours to open these accounts. If a member plans to deliver securities for the first time on a certain date, the member must contact the Securities Services Department in advance so that the accounts can be set up.

Before using the Bank's securities services, the member must also submit the following documents:

- Safekeeping Agreement
- Advances and Security Agreement
- Resolution and Authorization: Member Transactions

Once the Bank has opened the accounts at the securities custodian and verified that the member's documents are complete, the Bank will provide the member with delivery instructions and the account numbers. If the Bank has not received all of the required documents, the Bank will not be able to process any requested securities trades and transactions.

Designated Contacts

Members are asked to provide one primary contact person for their securities services. Members may also designate a secondary contact person. Individuals authorized in accordance with the member's Resolution and Authorization: Member Transactions and any related Certificate of Designated Persons on file with the Bank may update the person's contact information by sending an email to the Bank's Securities Services Department.

Authorization Agreements and Forms

The authorization agreements and forms must be submitted before a member can use the Bank's securities services. All agreements and forms must be dated and signed by an individual authorized in accordance with your institution's Resolution and Authorization: Member Transactions and any related Certificate of Designated Persons on file with the Bank. We will return a copy of each agreement to you upon receipt and signature by the Bank.

- Safekeeping Agreement (FC 1694)

  All members that want to use the Bank's securities services must first complete a Safekeeping

Agreement. Upon receipt of the Agreement, the Securities Services Department will establish accounts for the member with the Bank's securities custodian.

- **Advances and Security Agreement: Commercial Banks and Industrial Loan Companies (FC 2117), Credit Unions (FC 2127), Insurance Companies (FC 2177), Community Development Financial Institutions (FC 2349), or Housing Associates (FC 2341)**

  This agreement defines the credit relationship between the member and the Bank. All members must have an Advances and Security Agreement on file to request extensions of credit from the Bank. This form is not required for safekeeping of securities, but is required to pledge securities as collateral.

- **Resolution and Authorization: Member Transactions (FC 2065)**

  All members that want to use the Bank's securities services must first complete a Resolution and Authorization: Member Transactions. This form requires the member's Board of Directors to designate the officers, employees, or agents of the institution that are authorized to apply for credit, enter into transactions, pledge or withdraw collateral, open accounts, initiate securities transactions, and execute agreements and forms.

- **Certificate of Designated Persons — Entire Authority (FC 2066)**

  This is an optional form that may be used to designate additional individuals to engage in all transactions with the Bank, except for wires. Employees listed on this form are authorized to provide instructions regarding all securities-related transactions.

- **Certificate of Designated Persons — Collateral (FC 2068)**

  This is an optional form that may be used to designate additional individuals to engage in collateral transactions with the Bank. Employees listed on this form are authorized to provide instructions regarding the pledging and de-pledging of securities but are not authorized to provide instructions regarding securities held in safekeeping (except to pledge those securities).

- **Certificate of Designated Persons — Securities Services (FC 2109)**

  This is an optional form that may be used to designate additional individuals to move securities to and from their unpledged account (safekeeping account). Employees listed on this form are authorized to provide instructions regarding the purchase and sale of unpledged securities. They are not authorized to pledge or de-pledge securities.

Submitting Securities Transaction Requests Through the Member Portal

Members must use the Bank's member portal to submit their securities transaction requests. Secure and easy to use, the portal allows members to request the following securities transactions:

- Pledge securities under the SBC Program or the Standard Credit Program
- Deposit securities for safekeeping
- Release pledged securities or safekept securities
- Transfer securities between the member's pledged and safekept accounts

A user does not need to be an authorized signer to submit the request, but the request must be approved by an authorized signer. Authorized signers need a SecurID token to authorize securities transaction requests. Contact Web Support at (415) 616-2610 if you have questions obtaining a SecurID token or accessing the member portal.

Paper forms will be accepted only if the member portal is unavailable.

How to Safekeep Securities

Members may safekeep their unpledged securities with the Bank's securities custodian. Holding all securities with one custodian simplifies the pledging process and provides members with consolidated reporting.

To submit securities for safekeeping, upload your request before or on the settlement date to the Bank through the Securities feature on the member portal.

1. Your complete instructions must be received before your trade can settle.

2. All settled transactions are reflected on Securities Requests section of the member portal as well as on the Securities Transaction reports. Authorized requests, including a PDF of the request, will display on the Securities Request page for 7 days after settlement.
3. Versus Payment transactions will be included in the day's net credit/debit to the member's STA.

How to Pledge Securities

To pledge securities, upload your request to the Bank via the Securities feature on the member portal.

Securities Held in Safekeeping

1. Upon receipt of your complete instructions, the Bank obtains prices for the securities prior to pledging to ensure the value is sufficient to collateralize the credit amount requested, then transfers the securities to the pledged account.
2. All settled transactions are reflected on Securities Requests section of the member portal as well as on the Securities Transaction reports. Authorized requests, including a PDF of the request, will display in the Securities Requests section for 7 days after settlement.
3. The Bank will update securities data in the Borrowing Capacity report on the member portal upon settlement on the same business day. The Bank may also email an updated report to the member upon request. The member must report any discrepancies to the Bank within 7 business days.

Securities Not Held in Safekeeping

1. Upon receipt of your complete instructions, the Bank obtains prices for the securities prior to pledging them to ensure the value is sufficient to collateralize the credit amount requested.
2. All settled transactions are reflected on the Securities Transactions reports.
3. Versus Payment transactions will be included in the day's net credit/debit to the member's STA.
4. The Bank will update securities data in the Borrowing Capacity report on the member portal upon settlement on the same business day. The Bank may also email an updated report to the member upon request. The member must report any discrepancies to the Bank within 7 business days.

Borrowing Capacity of Pledged Securities

When members pledge securities as collateral, the type of security being pledged determines the borrowing capacity. The Eligible Securities: Maximum Borrowing Capacity Tables list the eligible collateral types and the maximum borrowing capacities of securities that may be pledged under the Bank's Standard Credit Program and the SBC Program. Not all securities of each type are eligible. Please contact Collateral Operations if you have eligibility questions.

How to Release Securities

Release of Pledged Securities

To request the release of securities pledged to the Bank, upload your request via the Securities feature on the member portal.

1. Upon receipt of your complete instructions, the Bank reviews the listed securities to ensure that your institution will have sufficient remaining collateral to secure outstanding credit. The Bank may refuse to release the listed securities if one of the following applies:
   - Requested release would cause the borrowing capacity of the member's remaining collateral to fall below the required collateral maintenance level
   - The member is in default
   - The information provided to the Bank is incomplete
   - Other reasons as determined by the Bank

2. All settled transactions are reflected on the Securities Requests section of the member portal as well as on the Securities Transactions reports.
3. Versus Payment transactions will be included in the day's net credit/debit to the member's STA.
4. The Bank will post updated securities data in the Borrowing Capacity report on its member portal the following business day. The Bank may also email an updated report to the member upon request. The member must report any discrepancies to the Bank within 7 business days.

Release of Unpledged Securities

To request the release of unpledged securities, upload your request via the Securities feature on the member portal.

1. Your complete instructions must be received before your trade can settle.
2. All settled transactions are reflected on the Securities Requests section of the member portal as well as on the Securities Transactions reports.
3. Versus Payment transactions will be included in the day's net credit/debit to the member's STA.

Transfer of Securities

Free Delivery

Securities may be settled as a free delivery transaction according to the member's broker instructions. No funds are received for the transaction. To ensure the accuracy of the broker instructions, free delivery transactions require the following authorizations:

- For free delivery transactions submitted via the Securities feature on the member portal, the Bank requires one verbal confirmation. A Bank employee contacts an authorized officer other than the person who authorized the submission using their SecurID token on the member portal. Members who plan to use free delivery should ensure that they have an adequate number of authorized employees available for confirmation.
- For free delivery transactions submitted via fax or email, a Bank employee contacts the member and requests verbal confirmation from an authorized individual. A different Bank employee contacts a second authorized individual for an additional verbal confirmation.

Delivery Versus Payment

Securities may be settled as a Delivery Versus Payment transaction according to the member's broker instructions, and funds are posted to the member's STA after delivery.

Free Receive and Receive Versus Payment

Members may send securities to Citibank either as a Free or Versus Payment transaction. Versus Payment transactions are posted to the member's STA.

Processing Deadlines

To ensure timely settlement, instructions should be submitted as early as possible before or on the settlement date. The Bank will make every effort to accommodate same-day settlement requests on book entry (uncertificated) securities. Advance notice may be required to ensure that the Bank has sufficient time to complete the settlement of multiple securities. Advance notice is always required on Physical (certificated) securities. Advance documentation to determine eligibility is required for Private Placement and Mutual Funds.

Trade settlement is dependent upon the type of security, the number of securities, and when the instructions are provided. Please note that the Bank is not responsible for any delays or failed trades caused by your submission of incomplete or erroneous instructions.

DTC/Fed Book Entry Securities

The Bank attempts same day settlement for all DTC and Fed Book Entry securities. These securities may require 24 hours to settle if instructions are received close to the 10:30 a.m. processing deadline.

Private Placement (Book Entry or Physical)

At least 24 hours prior to pledging, the member must submit a Private Placement Memorandum, Pooling and Servicing Agreement (with all exhibits) and other applicable documents and agreements to the Bank for review. The Bank may require additional documents, such as the Monthly Statement to Certificate holders.

Mutual Fund Shares

Before pledging mutual fund shares, the member must submit a prospectus to the Bank for review and approval. The Bank will work with the fund to complete any necessary documentation and to arrange the transfer. The requirements of different funds can vary significantly, which may affect the amount of time required to process the pledge.

Physical Securities

Physical securities require at least 48 hours to settle. Physical securities may require more than 48 hours to settle if they must be re-registered.

Physical Free Delivery items have a processing deadline of 8:30 a.m. Instructions must be received no later than 8:00 a.m. to allow time for verification, data entry, and release of the trade. If instructions are received after 8:00 a.m., it may not allow time for the trade to settle within the 48-hour timeframe.

Delivery Instructions

Each member is assigned two accounts at Citibank: a pledged account for securities pledged as collateral to the Bank and an unpledged account for securities in safekeeping that are not pledged to the Bank. Accurate delivery instructions must be included when the member or its broker delivers securities to Citibank.

It is important that you notify the Bank in advance of any trade.

Fed Eligible:

Clearing Agent's Fed Wire Address: Citibank NYC/CUST

ABA No.: 021000089

For Further Credit to Account No: six-digit pledged or unpledged account number

DTC Eligible:

Clearing Agent's Participant No.: DTC Participant #908

For Further Credit to Account No: six-digit pledged or unpledged account number

Please contact the Bank's Securities Services Department to obtain physical and Euroclear delivery instructions.

Transaction Processing

Trades

When uploading your securities file to the portal, you will need to indicate whether the trade is being processed as Free or Versus Payment. Free will appear on your Securities Transactions reports with a zero dollar amount. Trades that are processed Versus Payment will be posted to your STA.

Principal and Interest

All principal and interest payments will be posted to your STA as they are received from the paying agent through the Bank's custodian. If the paying agent changes a dollar amount or reverses a payment, the adjustment will be posted to your STA. If any transaction is not posted to your account on the scheduled date, contact the Securities Services Department to submit an inquiry with the custodian. In the event that the custodian does not receive anticipated funds and must reverse a payment, its compensation claim against you for use of funds will be posted to your STA.

STA Transactions

All securities transactions (trades, interest payments, dividends, maturities, calls, etc.) are posted to the member's STA on a daily basis. The Bank's securities system combines all credit transactions and posts a net credit to the account. The same process is followed for all debit transactions. The final Securities Transactions report provides the detail of the transactions included in the STA credit or debit amount(s).

Reports

Members may view the reports listed below, in the Reports section of the Bank's member portal, whenever they have securities transactions.

Cash Projections

This report lists securities transactions that the custodian anticipates posting to your account over the next 5 days, depending on the security type and issue. The report reflects estimated information as of the close of business on the previous business day and is available at the beginning of the current business day.

This report is intended to assist you with your cash management. Please note that the transactions listed are anticipated transactions based on the most reliable data available. Listed transactions are subject to change prior to final settlement. The funds should not be withdrawn until you have confirmation of their settlement.

Securities Transactions

The preliminary report reflects transactions settled as of 11:30 a.m. and is available at approximately 1:00 p.m. The final report reflects all transactions settled during the day and is available at the end of the business day. You can use this report to reconcile the securities debit or credit posted on your STA.

Current Securities Position

This report lists all securities held in your pledged and unpledged accounts, with totals for each account. The report is updated throughout the day to reflect intraday changes in your institution's securities position.

Monthly Securities Position

This report lists all securities held in your pledged and unpledged accounts, with totals for each account. It reflects data as of the close of business on the last business day of the month and is generally available the first business day after monthend.

Securities Services Monthly Fee Statement

This statement provides securities services fees for the prior month, which will be debited from your institution's STA on the last business day of the month. It is updated monthly, approximately five to seven days before monthend.

Securities Services Fees

Monthly Account Maintenance Fee

(based on the number of securities held at the end of the current month, by CUSIP)

Less than 10 securities	$50.00 per month
10-24 securities	$75.00 per month
25 or more securities	$100.00 per month

Monthly Securities Fees

Fed Eligible	$1.00 per item, by CUSIP
DTC Eligible	$2.50 per item, by CUSIP
Physical and Mutual Funds	$4.50 per item, by CUSIP
Euroclear	$0.01 per 1000 par, by CUSIP

Security Transaction Fees

Fed Eligible	$10.00 per item
DTC Eligible	$15.00 per item
Physical and Mutual Funds	$50.00 per item
Euroclear	$75.00 per item

Miscellaneous Fees

All Income Disbursement	$5.00 per item, by CUSIP
Pledge Status Change (account transfer)	$10.00 per item
Registration of Certificates*	$40.00 per hour
Research Projects (hourly)*	$40.00 per hour
Special Handling*	$40.00 per hour

* Fees will be charged based on the specific transaction and the amount of staff time required.

Eligibility of Mortgage Loans and Participations

Residential First Lien Mortgage Loans

Property Type

Residential 1- to 4-unit property, which may include:

- Condominium
- Manufactured home (permanently fixed to foundation)
- Planned unit development
- Cooperative (pre-pledge approval required)
- Leasehold

Note: Improvement must be completed and loan must be fully disbursed, i.e., no rehabilitation or construction loans.

Title and Ownership

- ALTA, CLTA insurance coverage [1]
- Fee simple or leasehold
- Individual, partnership, trust, or corporation
- First lien position
- First lien mortgage with a residential second lien mortgage loan, second lien home equity line of credit (HELOC), or equity participation agreement (equity participation programs record a second lien but have no debt-service requirements)

Occupancy

- Owner
- Second home
- Investment property

Note Type

- Fixed
- Adjustable
- Adjustable with negative amortization (Note: special margins apply) [2]
- Residential first lien HELOCs
- Interest only
- Balloon

Loan Type

- Conventional
- FHA
- VA
- HUD-insured Title I

Delinquency

- No more than one 60-day or two 30-day late payments in the last 12 months
- Currently no more than 60 days past due

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[1] Loans not meeting these criteria are eligible – a secondary market discount or adjustment to market value will apply. See the Field Review Discount Table.

[2] Maximum unpaid principal balance cannot exceed 125% of original loan amount for loans with negative amortization.

FICO Score

- Minimum FICO score is 620 for loans with a payment history of 12 months or less.
- FHA and VA loans with a lower FICO score may be eligible if they meet program guidelines, as evidenced by a valid FHA insurance certificate or VA guaranty certificate.
- There is no minimum FICO score for loans with a payment history greater than 12 months.

Term

- 40-year maximum amortization

Maximum Loan-to-Value (LTV) Ratio

- 100% maximum LTV ratio
- 100% maximum combined LTV (CLTV) ratio with simultaneous second lien (includes maximum 80% LTV with equity participation recorded as a second lien)

Appraisal

- Standard FNMA/FHLMC Uniform Residential Appraisal Report (URAR) [1]

Hazard and Flood Insurance

- Hazard insurance amount must be sufficient to cover the lesser of the unpaid principal balance or replacement cost. [1]
- Flood insurance is required on properties located in zones A and V. The amount must be sufficient to cover the lesser of the unpaid principal balance or the replacement cost. [1]

Mortgage Insurance

- Required if LTV exceeds 80% [1]

Property Taxes

- No delinquency greater than 3 years

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[1] Loans not meeting these criteria are eligible – a secondary market discount or adjustment to market value will apply. See the Field Review Discount Table.

Residential Second Lien Mortgage Loans and Home Equity Lines of Credit (HELOCs)

Property Type

Residential 1- to 4-unit property, which may include:

- Condominium
- Manufactured home (permanently fixed to foundation)
- Planned unit development
- Cooperative (pre-pledge approval required)
- Leasehold

Note: Improvement must be completed and loan must be fully disbursed, i.e., no rehabilitation or construction loans.

Title and Ownership

- ALTA or CLTA insurance coverage, date-down, preliminary title report, Policy of Insurance of Record Title, or junior title policy
- Fee simple or leasehold
- Individual, partnership, or corporation

Occupancy

- Owner
- Second home
- Investment property

Note Type

- Fixed
- Adjustable
- Interest only
- Balloon

Loan Type

- Conventional
- HUD-insured Title I

Delinquency

- No more than one 60-day or two 30-day late payments in the last 12 months
- Currently no more than 60 days past due

FICO Score

- Minimum FICO score is 620 for loans with a payment history of 12 months or less.
- There is no minimum FICO score for loans with a payment history greater than 12 months.

Term

- 40-year maximum amortization

Maximum Combined Loan-to-Value (CLTV) Ratio

- 100% maximum CLTV
- Loans with mortgage insurance or insured through HUD Title I: 100% maximum CLTV Appraisal
- Documentation must support the CLTV
- May be in the form of a broker's opinion of value, a short-form appraisal, electronic valuation, a drive-by appraisal, a desk appraisal, or a FNMA/FHLMC URAR

Hazard and Flood Insurance

- Hazard insurance amount must be sufficient to cover the lesser of the unpaid principal balance or replacement cost [1]
- Flood insurance is required on properties located in zones A and V. The amount must be sufficient to cover the lesser of the unpaid principal balance or the replacement cost [1]

Property Taxes

- No delinquency greater than 3 years

Member Eligibility

- Insurance company members may not pledge residential second lien mortgage loans and home equity lines of credit.

[1] Loans not meeting these criteria are eligible – a secondary market discount or adjustment to market value will apply. See the Field Review Discount Table.

Multifamily First Lien Mortgage Loans

Property Type

5 or more residential units

- For mixed-use properties, at least 60% of income must come from the residential units. (If less than 60% of income comes from the residential units, the property type is considered commercial.)

Note: Improvement must be completed and loan must be fully disbursed, i.e., no rehabilitation or construction loans.

Title and Ownership

- ALTA or CLTA insurance coverage [1]
- Fee simple
- Individual, partnership, or corporation
- First lien position
- Leasehold

Note Type

- Fixed
- Adjustable
- Interest only
- Balloon

Loan Type

- Conventional
- FHA
- HUD-insured Title I

Delinquency

- No more than one 60-day or two 30-day late payments in the last 12 months
- Currently no more than 60 days past due

Term

- 40-year maximum amortization
- For insurance company members, the remaining term of the loan must be at least three years.

Maximum Loan-to-Value (LTV) Ratio

- Maximum original LTV ratio of 80% for loans with a payment history of 12 months or less
- Maximum current LTV ratio of 100% for loans with a payment history greater than 12 months

Debt Service Coverage Ratio (DSCR)

- Minimum original DSCR of 1.00x for loans with a payment history of 12 months or less
- Loans with a payment history greater than 12 months with an original DSCR that is less than 1.00x are eligible.

[1] Loans not meeting these criteria are eligible – a secondary market discount or adjustment to market value will apply. See the Field Review Discount Table.

Appraisal

- FNMA/FHLMC 2- to 8-page or narrative appraisal [1]
- Environmental report [1]

Hazard and Flood Insurance

- Hazard insurance amount must be sufficient to cover the lesser of the unpaid principal balance or replacement cost [1]
- Flood insurance is required on properties located in zones A and V. The amount must be sufficient to cover the lesser of the unpaid principal balance or the replacement cost [1]

Property Taxes

- No delinquency greater than 3 years

Financial Data

- Current (within 18 months) rent roll or operating statements [1]

Prepayment Penalty Provision

- For insurance company members, the loan must have a prepayment penalty provision.

[1] Loans not meeting these criteria are eligible – a secondary market discount or adjustment to market value will apply. See the Field Review Discount Table.

Commercial First Lien Mortgage Loans

Property Type

Commercial real estate, which may include:

- Low- or high-rise office
- Office condominium
- Single-tenant retail
- Regional mall
- Warehouse
- Mini-storage facility
- Hotel/motel
- Medical/dental office or condominium
- Convalescent facility (medical services provided)
- Strip shopping center (multiple tenants)
- Neighborhood shopping center or outlet
- Mobile home or RV park
- Research and development facility
- Mixed use commercial/residential (over 40% of income comes from commercial)

Note: Improvement must be completed and loan must be fully disbursed, i.e., no rehabilitation or construction loans

Title and Ownership

- ALTA, CLTA insurance coverage [1]
- Fee simple
- Individual, partnership, or corporation
- First lien position
- Leasehold

Note Type

- Fixed
- Adjustable
- Interest only
- Balloon

Loan Type

- Closed end
- Construction to permanent
- May have an SBA 504 second lien

Delinquency

- No more than one 60-day or two 30-day late payments in the last 12 months
- Currently no more than 60 days past due

Term

- 40-year maximum amortization
- For insurance company members, the remaining term of the loan must be at least three years.

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[1] Loans not meeting these criteria are eligible – a secondary market discount or adjustment to market value will apply. See the Field Review Discount Table.

Maximum Loan-to-Value (LTV) Ratio

- Maximum original LTV ratio of 80% for loans with a payment history of 12 months or less
- Maximum original LTV ratio of 100% for loans with a payment history greater than 12 months

Debt Service Coverage Ratio (DSCR)

- Minimum original DSCR of 1.00x for loans with a payment history of 12 months or less
- Loans with a payment history greater than 12 months with an original DSCR that is less than 1.00x are eligible.

Appraisal

- Narrative appraisal [1]
- 2-10 page appraisal form (by The Appraisal Foundation, SPG Revised 1999) [1]
- Environmental report [1]

Hazard and Flood Insurance

- Hazard insurance amount must be sufficient to cover the lesser of the unpaid principal balance or replacement cost 1
- Flood insurance is required on properties located in zones A and V. The amount must be sufficient to cover the lesser of the unpaid principal balance or the replacement cost [1]

Property Taxes

- No outstanding delinquency greater than 3 years

Financial Data

- Current (within 18 months) rent roll or operating statements [1]

Prepayment Penalty Provision

- For insurance company members, the loan must have a prepayment penalty provision.

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[1] Loans not meeting these criteria are eligible – a secondary market discount or adjustment to market value will apply. See the Field Review Discount Table.

Mortgage Loan Participations

General Requirements

- For all members except insurance companies and CDFIs, participations may be retained or purchased interests in an eligible mortgage loan or pool of eligible mortgage loans.
- For insurance company members and CDFIs, participations must be retained interests in an eligible mortgage loan or pool of eligible mortgage loans.
- The Bank may require participations to be approved before receiving borrowing capacity.
- All applicable legal documents required by the Bank must be executed before a participation receives borrowing capacity.
- Subordinated participation interests and participation interests owned by Freddie Mac are not eligible.
- The servicer must be a Bank member or other Bank-approved servicer. For insurance company members, the servicer must be the member or an affiliate of the member.
- Loan documents may be held by a Bank-approved third-party document custodian.

Eligible loan types are:

All members:

- Residential first lien mortgage loans
- Multifamily first lien mortgage loans
- Commercial first lien mortgage loans

All members except insurance companies and CDFIs:

- Residential second lien mortgage loans and HELOCs

Retained Participations

- Execute the Bank's Waiver and Consent to Advances and Security Agreement (if member's Advances and Security Agreement is dated prior to June 2004).
- Copies of the Participation Agreement, promissory note, deed of trust or mortgage, title policy, and appraisal must be available for review by the Bank.

Purchased Participations

- Execute the Bank's Participation Security Agreement (if member's Advances and Security Agreement is dated prior to June 2004).
- Copies of the Participation Certificate and Loan Schedule, Participation Agreement, promissory note, deed of trust or mortgage, title policy, and appraisal must be available for review by the Bank.
- Execute the Bank's Acknowledgement if participated loans are serviced by a loan servicer other than the member or if documents are held by a custodian other than the member.
- Not eligible collateral for insurance company members.

Pledging Method

- Participations may be pledged under any pledging method.
- For loans pledged under specific identification or blanket lien with detailed reporting, the participation percentage and type of participation must be reported on your MCU data file (refer to fields 72 and 73 of the MCU Data Field Questionnaire for definitions).

Ineligible Loans

The following loan types are not eligible mortgage loans or participations:

- Construction loans
- Land loans
- Management-intensive facilities that cannot be converted to another use, such as:
  - Hospitals
- Loans secured by:
  - Environmentally impaired property (or current use has potential for environmental impairment) (e.g., gas stations, auto repair facilities, car dealership, dry cleaner with onsite equipment)
  - Single-purpose property that cannot be converted to another use
  - Time or equity share property
  - Condemned or uninhabitable property
  - Mobile home not permanently affixed to foundation
  - All-inclusive or wrap-around trust deeds
  - Fractional ownership tenants-in-common properties
- Classified or substandard loans
- Loans with partial reconveyance of property
- Junior lien mortgage loans on multifamily and commercial real estate properties
- Lines of credit on multifamily and commercial real estate properties
- Freddie Mac-owned participated loans
- Leaseholds on multifamily or commercial real estate loans that do not meet the Bank's guidelines: see Leasehold Loans
- Loans registered with the Mortgage Electronic Registration System (MERS®) that don't have an Electronic Tracking Agreement: see Loans Registered with Mortgage Electronic Registration System
- Loans to a director or employee of the Federal Home Loan Bank
- Loans to a director or employee of your institution
- Builder/developer loans
- Joint ventures: A loan secured by property in which the member has an equity investment or any expectation of cash flow or equity participation
- SBA-, USDA-, or FSA-guaranteed loans
- Loans with litigation pending
- Loans with the borrower in bankruptcy
- Small business, small farm, or small agribusiness loans, including business loans secured by real estate (except for CFIs)
- Nontraditional and subprime mortgage loans that do not comply with current regulations or regulatory guidance or directives: see Interagency Guidance on Nontraditional and Subprime Mortgage Loans
- High-cost loans: see Anti-Predatory Lending Policy
- OFAC loans: see OFAC Policy
- Loans pledged to others
- Certain loans on properties encumbered by private transfer fee covenants created on or after February 8, 2011, that do not meet the Bank's guidelines: See Loans on Properties Encumbered by Certain Private Transfer Fee Covenants
- Residential loans originated after January 2017 that do not meet the Ability to Repay requirements of the Consumer Finance Protection Bureau

If you have questions about the eligibility of a loan, please contact Collateral Services.

Documentation Requirements

All mortgage loans are subject to the following documentation requirements:

Ownership

The member must retain the original note and deed of trust for each pledged loan. The note and deed of trust must be in the member's name. If the mortgage loan was originated by an entity other than the member, the promissory note must contain a proper endorsement (or chain of endorsements) to the member, with corresponding corporate assignment(s) of the mortgage/deed of trust. Also see Loans Registered with MERS.

Endorsements

Members are not required to endorse notes to the Bank unless the Bank requests it.

Corporate Assignments

To substantiate the chain of title, the member must maintain a recorded corporate assignment of the security instrument (mortgage or deed of trust) for each transfer of any mortgage not originated by the member. If the mortgage was acquired as a result of a corporate merger or acquisition, then a corporate assignment is not needed from the former holder of record (although the Bank may require appropriate evidence of the merger or acquisition). A corporate assignment of the pledged mortgage to the Bank is not required unless the Bank requests it. Also see Loans Registered with MERS.

Recordation

Security instruments (mortgages or deeds of trust) must be properly recorded within the jurisdiction where the security property is located. Each mortgagor's or trustor's signature must be evidenced with a valid notarization.

Possession of Loan Documents

The original loan documents for all mortgage loan collateral pledged to the Bank must be physically held by the member for the Bank and must be physically safeguarded by the member using reasonable care. With the Bank's approval, a member's pledged mortgage loans may be held by a third-party custodian, subject to the execution of a collateral bailment agreement among the Bank, the member, and the custodian that sets forth the location and terms of custody for the loan documents. Refer to Third-Party Document Custodians for more details.

Payment Histories

Members must maintain the borrower's payment history on each mortgage loan, including paid-to date, dates paid, payment amounts, and outstanding principal balance. The Bank will periodically require reports of the payment histories of selected mortgage loans for the most recent 12-month period.

Delinquency Reports

The Bank may periodically require an aging report of delinquent mortgage loans pledged as collateral.

Special Loan Conditions

Loans with the following characteristics may be eligible to receive borrowing capacity. The Bank, in its sole discretion, may accept these loan types under the conditions noted.

Holdback Accounts

A permanent mortgage loan with a holdback account for improvements may be eligible if the member is able to report the unpaid principal balance of the loan net of the undisbursed holdback balance. Loans on properties under construction or rehabilitation with holdback accounts are not eligible to be pledged to the Bank.

Loans Held for Sale

The Bank may allow qualifying members to pledge and receive borrowing capacity on mortgage loans held for sale (LHFS). The operational requirements and conditions for pledging LHFS will reflect the operational needs of the member and the credit and collateral risk management requirements of the Bank.

Member Eligibility

Only the most creditworthy members with established secondary marketing operations and expertise that are satisfactory to the Bank may pledge LHFS.

Eligible Collateral

Approved members may pledge closed residential first lien mortgage loans, residential second lien mortgage loans, and HELOCs that are saleable in the secondary market.

Collateral Pledging Requirements

Approved members may pledge LHFS under specific identification or blanket lien with detailed reporting. Newly pledged and sold LHFS must be reported daily, weekly, or monthly as determined by the Bank. The Bank will establish each eligible member's LHFS collateral pledging requirements individually. The Bank must approve third-party custodians. The Bank may also require:

- A third-party document custodian to control loan documents for pledged LHFS
- Control by the Bank of loan sale proceeds in response to member business risk
- A limit on the period of time that a loan may be pledged as LHFS collateral
- A percentage-of-assets limitation on credit outstanding secured by LHFS
- Bailee letters, as applicable

Cross-Collateralized Loans

Cross-collateralized loans are two or more secured loans that are related to one another because each loan contains a default clause stating that a default under one loan results in a default under the other loans.

Eligible Loans

- Residential first lien mortgage loans
- Multifamily first lien mortgage loans
- Commercial first lien mortgage loans

Requirements

- Each loan must be secured by a first lien mortgage on the underlying property
- All reconveyances must be approved by the Bank
- Each mortgage/deed of trust references all other loans that are cross-collateralized
- Each mortgage/deed of trust contains appropriate descriptions of the terms of the cross-default
- All loans are made to the same borrower
- All related cross-collateralized loans must be pledged together to the Bank

Borrowing Capacity

The standard borrowing capacity is reduced 5% for cross-collateralized loans. (See the Field Review Discount Table.) The underlying property type (e.g., residential, multifamily, or commercial) for each cross-collateralized loan will determine the borrowing capacity for that loan.

Pledging Method

- Cross-collateralized loans may be pledged under any pledging method.

Loans with Additional Collateral

Loans with additional collateral are defined as one promissory note secured by two or more mortgages/deeds of trust. The additional collateral is either **incidental** (the loan-to-value ratio is fully supported by one of the secured properties) or **necessary** (the loan-to-value ratio is **not** fully supported by a single property).

Requirements

- All mortgages/deeds of trust are in the first lien position for all properties involved.
- The mortgages/deeds of trust are recorded for each property and are security for the same promissory note.
- The Bank must approve all partial reconveyances.

Borrowing Capacity

The standard borrowing capacity is reduced 5% for loans with additional collateral. (See the Field Review Discount Table.)

Loans with Incidental Additional Collateral

For loans with **incidental** additional collateral, the property type of the primary collateral will determine the loan type and the associated borrowing capacity.

Example: If a loan is secured by residential, multifamily, and commercial collateral, and it is the multifamily collateral that fully supports the loan-to-value ratio, the loan will be treated as a multifamily loan for the purpose of assigning the borrowing capacity.

Loans with Necessary Additional Collateral

For loans with **necessary** additional collateral, the collateral with the lowest borrowing capacity will determine the loan type and the associated standard borrowing capacity.

Example: If a loan is secured by residential, multifamily, and commercial collateral, and no one piece of collateral fully supports the loan-to-value ratio, the loan will be treated as a commercial loan for the purpose of assigning the borrowing capacity.

How to Pledge

- Loans with additional collateral may be pledged under any pledging method.

Leasehold Loans

Leaseholds are assets created by a ground lease on land. The ground lease confers to a lessee/borrower exclusive use of the land for a stated term along with the obligation to pay rent to the lessor/landowner. To facilitate the lessee's financing on the improvement, the lessor may subordinate its fee simple interest in the land to the lender or execute a tri-party agreement that protects the lender's security interest.

Eligible Loans

- Residential first lien mortgage loans (same as fee simple loans; no added requirements)
- Residential second lien mortgage loans and HELOCs (same as fee simple loans; no added requirements)
- Multifamily first lien mortgage loans
- Commercial first lien mortgage loans

Requirements (Multifamily and Commercial Real Estate Leaseholds)

- Ground lease and tri-party agreement must be recorded
- Ground lease term must exceed mortgage term by at least 10 years
- Ground lease rents and future rent adjustments must be fixed or determinable. The rent adjustment basis must employ industry standard indexes
- Ground lease must either be subordinated to the lender's mortgage, or the provisions of the lease and/or tri-party agreement must substantially contain the following conditions:
- Lender's consent to modify ground lease
- No prior liens ahead of the mortgage; ground lease is not subordinated to any party except for the lender
- Lessee's interest is assignable to a purchaser without lessor's consent
- Ground lease is not in default
- Concurrent written notice of default to both lessee and lender
- Lender has the same monetary default cure periods as the borrower
- Lessee's rights on the lease may be exercised by the lender
- Contains standard non-disturbance clause and has no unreasonable restrictions on subletting
- Lender has right to enter new lease with similar terms upon lease termination in a bankruptcy proceeding
- Insurance proceeds or condemnation awards must be applied to either property restoration or mortgage repayment
- Prohibits merger into fee interest if borrower acquires title to the property
- Lessor to provide estoppel certificates upon request
- Lessor to waive noncurable defaults following a foreclosure

Borrowing Capacity

Borrowing capacity for leasehold loans will be the same as for fee simple loans. See Loan Collateral Borrowing Capacity.

Pledging Method

Leasehold loans may be pledged under any pledging method.

Loan Modifications

Residential and income property loans that have been prudently modified for credit reasons, with terms designed to increase affordability and the probability of repayment, are generally eligible to receive borrowing capacity. Modified loans must be current. If you pledge under specific identification or blanket lien with detailed reporting, you must report information regarding the modifications (Refer to data fields 5 through 13 in the MCU Data Field Questionnaire).

In the collateral field review, any modified loan in the field review sample will be discounted if it had a previous history of delinquency (see the Field Review Discount Table). Modified income property sample loans will be reviewed in light of the Interagency Policy Statement on Prudent Commercial Real Estate Loan Workouts issued on October 30, 2009.

Loans Registered with the Mortgage Electronic Registration System (MERS®)

MERS® is a national electronic registry that tracks the ownership of mortgage rights for residential, multifamily, and commercial loans. MERS acts as the mortgagee of record in the public land records and as nominee for the lender, its successors and assignees.

The member may use either of the following options when pledging loans registered with MERS.

Option 1

- Prior to pledging the loans to the Bank,
  - the member must execute an Electronic Tracking Agreement (ETA) and any other applicable documents with the Bank and MERS,
  - any third-party servicer or sub-servicer of the loan must execute an acknowledgement and any other applicable documents required by the Bank, and
  - the member or servicer must notify MERS of any MERS-registered loans to be pledged to the Bank by entering the Bank's name in the "Associated Member" field on the MERS registration system (Bank's Associated Member number 1000244). Borrowing capacity will not be assigned to any MERS loans for which the Bank is not identified as an associated member in the MERS system within 90 days of the pledge date.
- For specific identification and blanket lien with detailed reporting, the member must include the MERS Mortgage Identification Number (MIN) on the Mortgage Collateral Update file.
- For blanket lien summary reporting, the member must provide a listing of MERS-registered loans prior to the start of a field review. The listing must include the member's loan number, MIN, and unpaid principal balance for each loan.

Option 2

- Prior to pledging the loan to the Bank, the member may "de–register" the loan from MERS by requesting a corporate assignment from MERS to the member. The corporate assignment must be recorded before the member pledges the loan to the Bank. The member should retain a copy of the recorded assignment in the loan or collateral file.

Third-Party Document Custodians

Nonmember Custodians

The Bank must approve any nonmember third party that has or will have custody of loan documents (original note, mortgage/deed of trust, and corporate assignments) for loans pledged to the Bank.

Nonmember Custodian Eligibility Requirements

For a custodian that is a majority-owned subsidiary of the member:

- The subsidiary cannot be subject to any adverse condition or action that would cause the Bank to deem itself insecure, and
- The member cannot be on delivered status.

For a custodian that is a member's parent, affiliate, or subsidiary (not majority-owned), and for all unaffiliated third-party custodians:

- The custodian, custodian's parent, or custodian's subsidiary must have an individual rating of "BBB" or better from a Nationally Recognized Statistical Rating Organization or a rating of 182 or better from Investment Dynamics Corporation Financial Publishing, or meet the following criteria:
  - Have a Composite CAMELS rating of 2 or higher,
  - Have a Prompt Corrective Action classification of "Well Capitalized,"
  - Have 5 years of business operating history,
  - Have a positive earnings trend, reflecting profitability during four of the six most recent quarters, and
  - Have no adverse regulatory or legal issues pending.
- The custodian must be an approved custodian for Fannie Mae, Freddie Mac, or Ginnie Mae, or meet the following criteria:
  - Be a financial institution (or parent or subsidiary) supervised by the FDIC, FRB, OCC, OTS, or NCUA,
  - Be in good standing with the regulator,
  - Have employees knowledgeable about the institution's custodial functions,
  - Have written procedures for review and control of the loan documents and authorized access measures,
  - Maintain a disaster recovery plan,
  - Have sufficient tracking controls to track the receipt, release, and location of loan documents and to provide management reports, and
  - Maintain secure and fire-resistant storage facilities that have dual access controls.

Nonmember Custodian Document Requirements

- The member, custodian, and Bank must execute and comply with the terms of the Bank's collateral bailment agreement, in which the custodian agrees, among other things, to act as bailee on the Bank's behalf and acknowledges the Bank's security interest in the collateral held in custody.
- As requested or required by the Bank, the custodian must periodically certify custody of the loan documents of loans pledged to the Bank.

Nonmember Custodian Approval

- The Bank will review custodial operations and custodial agreements prior to approval.

Member Custodians

A member may act as the document custodian for another member, subject to the Bank's review of the custodial arrangements. Only members not required to deliver collateral to the Bank may enter into such custodial arrangements.

Member Custodian Eligibility Requirements

- The Bank must be satisfied that the loan documents will be safeguarded using reasonable care by the custodian.
- If either the member or custodian becomes subject to the Bank's loan delivery requirements, the custodian must deliver the member's loan collateral to the Bank.

Member Custodian Document Requirements

- The member, custodian, and Bank must execute and comply with the terms of the Bank's collateral bailment agreement, in which the custodian agrees, among other things, to act as bailee on the Bank's behalf and acknowledges the Bank's security interest in the collateral held in custody.
- As requested by the Bank, the custodian must periodically certify custody of the loan documents or required loans pledged to the Bank.

Document Storage Provider

A member may contract with a Bank-approved document storage provider to store original notes, deeds of trust, and other loan-related documents for loans pledged to the Bank. In such arrangements, the member must retain custodial controls over the loan collateral. For example, the member is responsible for tracking the location of all loan documents and directing the deposit and release of original loan documents to and from the document storage provider. The member may not be on delivered status.

Prior to approval by the Bank of an arrangement with a document storage provider, the Bank will conduct a due diligence review of the member's custodial controls, conduct a vault inspection of the document storage provider's premises, and verify that the document storage provider maintains the following:

- Written procedures for protection of the loan documents and authorized access measures
- A disaster recovery plan
- Sufficient tracking controls to track the receipt, release, and location of documents and to provide management reports
- Secure and fire-resistant storage facilities that have dual access controls
- Required insurance coverage

Each arrangement with a document storage provider will be governed by a Document Storage Provider Acknowledgment executed by the provider, the member, and the Bank. In the Document Storage Provider Acknowledgement, the document storage provider acknowledges its custody of the loans and of all the loan documents as bailee for the Bank for the purpose of perfecting or continuing the perfection of the Bank's security interest in the collateral.

Loans Serviced by Others

Loans serviced by others are mortgage loans serviced by an entity other than the member. The servicer may either own the servicing rights (servicing released) or act as a contract servicer for the member (sub-serviced).

Eligibility Requirements

- The servicer must meet one of the following requirements:
  - have a satisfactory servicer rating from Fitch, Moody's or Standard & Poors,
  - have an IDC rating of 182 or better,
  - be an approved seller/servicer for Fannie Mae, Freddie Mac, or Ginnie Mae, or
  - provide a satisfactory report of compliance set forth in the Uniform Single Attestation Program for Mortgage Bankers (USAP Report)
- The member must provide a copy of the Servicing Agreement.
- The member must always report the gross note rate on the Mortgage Collateral Update, even if the loan servicing is performed by another entity (servicing released or sub-serviced).
- The servicer must execute a Servicer Acknowledgement.

Field Review Discounts

- A 5% discount will apply when a member does not service the loan or does not own the servicing rights to the loan.
- A 1% discount will apply for sub-serviced mortgage loans.

Collateral Pledged by a Subsidiary or Affiliate

The Bank may accept collateral owned and pledged by a member's wholly owned subsidiary, substantially wholly owned subsidiary (such as a REIT), or affiliate. Eligible collateral pledged by the subsidiary or affiliate may be used to meet the member's collateral maintenance obligation.

Requirements

Each subsidiary or affiliate pledge transaction is unique. The Bank's requirements may vary depending on the particular facts and circumstances of the member and its subsidiary or affiliate. Factors that the Bank may consider include the member's relationship with its subsidiary or affiliate, the organizational structure of the subsidiary or affiliate, and the business of the subsidiary or affiliate. For more specific requirements, please contact your Relationship Manager and request a term sheet.

General requirements for all subsidiary and affiliate pledge transactions include:

- The subsidiary or affiliate must be approved by the Bank as a pledgor of collateral.
- The subsidiary or affiliate must guarantee the member's obligations to the Bank, secured by a pledge of assets owned by the subsidiary or affiliate.
- If required, the member must pledge the capital stock of the subsidiary to the Bank as additional collateral.

Documents

The member must provide the following documents, in satisfactory form, to the Bank:

- Board resolutions from the member approving the pledge to the Bank
- Board resolutions from the subsidiary or affiliate approving the pledge to the Bank, the guaranty and security agreement, and other related actions required by the Bank
- Articles and bylaws of the subsidiary or affiliate
- Original participation certificates, if applicable
- Original stock certificates of the subsidiary, if required
- Appropriate legal opinions on the pledge of collateral and other relevant matters

The following agreements, satisfactory to the Bank, must be executed by the Bank, the member, and the subsidiary or affiliate, as applicable, and delivered to the Bank before the Bank will assign borrowing capacity to the collateral pledged by the subsidiary or affiliate:

- Advances and Security Agreement: Affiliate Pledge (FC 2323)
- Guaranty and Security Agreement
- Stock Pledge Agreement
- Subordination Agreement
- Contribution/Participation/Loan Agreement (between the member and the subsidiary or affiliate)
- Irrevocable Proxy
- Other applicable documents required by the Bank

Custody

The pledging subsidiary or affiliate must retain custody of the applicable loan documents. If the subsidiary or affiliate is not in possession of the loan documents, a collateral bailment agreement must be executed by the Bank, the subsidiary or affiliate, and the Bank-approved custodian. Please see Third-Party Document Custodians.

Fees

The Bank will charge the member a $25,000 fee for each subsidiary or affiliate approved to pledge collateral on behalf of the member.

Notification of Sold and Paid-Off Loans

Loan Sales

Members contemplating a sale of loans pledged to the Bank may permit prospective purchasers to review the notes and other loan documents as long as such documents remain in the custody of the member.

The note and other loan documents related to loans pledged to the Bank may not be transferred out of the member's custody to any other party (other than an approved custodian) for any purpose without the prior written consent of the Bank, and may not be sold, transferred, assigned, pledged or otherwise encumbered until it is released by the Bank.

If the release of the loan documents will result in a collateral deficiency, the Bank's collateral bailment agreement must be executed by the member, purchaser and Bank prior to the loan documents being transferred. In the collateral bailment agreement, the purchaser agrees, among other things, to act a bailee on behalf of the Bank and acknowledges the Bank's security interest in the pledged loans.

Approved members may pledge loans originated for sale in the secondary market. Please see Loans Held For Sale or contact your Relationship Manager for details.

Paid-Off Loans

Because loans are routinely paid off, the Bank assumes a reasonable amount of loan payoffs between reporting cycles for blanket lien and specific identification. If a member experiences an inordinate amount of loan payoffs within the pledged portfolio between reporting cycles, the Bank requires that the member depledge these loans as soon as possible. The member may accomplish this by submitting a Depledge Only MCU.

Eligibility of Small Business, Agribusiness, and Farm Loans

Member Eligibility

Only members that are community financial institutions (CFIs) may receive borrowing capacity on small business, small agribusiness, and small farm loans pledged to the Bank. A CFI is an FDIC-insured depository institution with average total assets over the preceding three-year period of less than $1,148 million (as of January 1, 2017). This asset cap is adjusted each year by the Federal Housing Finance Agency based on the annual percentage increase in the Consumer Price Index.

CFI members that meet the following criteria may be eligible to receive borrowing capacity on small business, agribusiness, and farm loans:

- PCA classification of Well Capitalized
- Limited small business, agribusiness, and farm loan problem assets
- Members that are required to deliver loan collateral must deliver small business, agribusiness, and farm loans, if needed, to support advances

Small business, agribusiness, and farm loans must be pledged under a blanket lien. If a member has a pre-existing blanket lien with another creditor, the Bank will determine whether the member is eligible to pledge these loans. Eligible CFIs that are not currently pledging their loan collateral under blanket lien may sign up for blanket lien pledging by executing an Advances and Security Agreement (FC 2117) with a revision date of June 2004 or later and completing a Pledging and Reporting Designation (FC 2237).

Loan Eligibility

The Bank will determine loan eligibility at the time of the collateral field review.

Eligible Loan Types

- Secured lines of credit
- Working capital loans
- Accounts receivable and inventory financing
- Intermediate and long-term loans for capital assets

Eligible Loan Purposes

- Finance growth or provide working capital
- Finance operating costs
- Finance accounts receivable and inventory
- Purchase or refinance of capital assets
- Refinance of existing debts (if those debts have been performing as agreed)

Ineligible Small Business, Agribusiness, and Farm Loans

- Unsecured loans
- Classified loans (special mention, substandard, doubtful, or loss)
- Delinquent loans (more than 30 days past due)
- Loans guaranteed by the Small Business Administration or the Farm Service Agency
- Loans outside member's market area
- Participations (purchased)
- Construction loans
- Builder/development loans
- Bridge loans
- Agricultural development loans (e.g., planting new vineyards or orchards)
- Accounts receivable lines to retailers for retail receivables
- Accounts receivable lines for medical receivables

- Loans to a director or employee of your institution or the Bank
- Joint ventures: A loan secured by property in which the member has an equity investment or any expectation of cash flow or equity participation
- Loans to specialty enterprises when no well developed market exists
- Loans to start up a business or franchise (unless fully secured by cash, cash equivalent or real estate)
- Loans for non-productive or illegal purposes
- Loans to finance experimental, new, or unproven products
- Loans with litigation pending, judgments, or tax or mechanic's liens
- Loans to borrowers who have filed bankruptcy (in the last seven years)
- Loans secured by environmentally impaired property (e.g., gas station, auto repair facilities)
- Substandard property, rated "fair" or "poor" by the real estate appraiser
- Agricultural properties with inadequate water supply or rights
- Land-locked properties (no ingress or egress)
- Leasehold property
- Leased vehicles, livestock, machinery, or equipment
- Atypical livestock (e.g., llamas, chinchillas, or ostriches)
- Specialty crops (e.g., jojoba beans, guava, or kiwi)

If you have any questions about the eligibility of a loan, please contact Collateral Services.

Specific Identification Pledging: Mortgage Loans and Participations

Under specific identification, members pledge eligible loans and participations by providing specific, detailed information about each loan or participation on a monthly basis.

Member Eligibility

Members with strong credit quality ratings are eligible to pledge mortgage loans and participations using specific identification, although the Bank generally encourages members to pledge under blanket lien with detailed reporting.

Insurance company and CDFI members are required to pledge mortgage loans under specific identification with monthly reporting and to deliver all mortgage loan collateral.

Members that have experienced a deterioration in credit quality may be required to pledge mortgage loans and participations under blanket lien with detailed reporting, and members that are required to deliver loan collateral to the Bank are generally required to pledge mortgage loans and participations under blanket lien with detailed reporting.

Eligible Collateral

All eligible mortgage loans and participations may be pledged under specific identification.

Authorizations

To pledge loans and participations under specific identification, or to request the release of loans and participations already pledged as collateral, the individual contacting the Bank must be authorized on one of the following:

- Resolution and Authorization: Member Transactions (FC 2065)
- Certificate of Designated Persons — Entire Authority (FC 2066)
- Certificate of Designated Persons — Collateral (FC 2068)

Mortgage Collateral Update

The Mortgage Collateral Update (MCU) is an electronic file that provides updated information to the Bank on a member's pledged loan collateral. Members are currently using a variety of formats to provide this information, including:

- **Customized file formats**: The Bank accepts file formats defined by the member that are compatible with the member's data process and satisfy the Bank's MCU data requirements. The Bank maps the member's data into the MCM system. To request data mapping, the member completes the Data Field Questionnaire and provides a sample file layout and a list of its codes and definitions. The Bank requires all new members to use this process. Members using other reporting methods may also change to a customized file format.
- **Comma delimited ASCII or fixed width file**: An electronic file that can be queried from your database using various software options. The current specifications for this file are included in a separate document, Bank-Defined MCU File Format Specifications. (Some members are using previous versions of the ASCII file format and must use different specifications when preparing the MCU. Please contact Collateral Operations to obtain the correct specifications for the MCU file format you are using. The MCM system will reject loans and participations that are not submitted using the correct specifications.)

MCU files must be consistent with the member's approved MCU file layout specifications to avoid any delays in processing as a result of data inconsistencies. A delay in processing and updating the member's pledged loan collateral could potentially affect the member's borrowing capacity. Any changes in the member's existing approved MCU file layout specifications and user-defined field values require advance notification to the Bank.

MCU files must be sent to the Bank's Secure Data Transfer Location. Complete the MCU Data Transmission Set-up form (FC 2249) to identify the data transmission method your institution will use when transmitting MCU data to the Bank.

You may select one of the following data transmission methods:

- **Secure FTP:** A secure file transmission method over an encrypted channel. As part of the process, the Bank's secure Data Transfer Service will automatically send an email notification to the member to acknowledge receipt of the file. Transmission methods are SFTP, FTP over SSH, and FTP over SSL.
- **ASx Standards:** An encrypted file transmission method that automatically sends an acknowledgment to the sender when the complete file has successfully been received and unencrypted by the Bank.

If you are in the process of setting up your preferred MCU data transmission method, the MCU files currently being submitted to the Bank must be encrypted and password-protected using PKZip or WinZip to comply with the Bank's minimum security requirement for transmitting via email or CD. The password must be sent under separate cover.

Please contact Collateral Operations if you have any questions regarding the set-up process.

There are several options for submitting an MCU:

- **Standard MCU**: Includes all loans and participations pledged to the Bank and must be submitted to the Bank on a regularly scheduled basis.
- **Pledge Only MCU**: Includes only new loans and participations being pledged to the Bank and may be used to pledge additional collateral outside of your normal update schedule. These loans and participations should be included on the next Standard MCU or Streamlined MCU (Update Only).
- **Streamlined MCU (Update Only)**: Includes only loans and participations that were previously pledged to the Bank via a Standard MCU or a Pledge Only MCU. The Streamlined MCU has only 11 fields and may be submitted in place of the Standard MCU according to your normal update schedule. The Streamlined MCU is for updates only, and new loan collateral must be pledged using the Standard MCU or a Pledge Only MCU. See Table 1 for the file format specifications.
- **Depledge Only MCU**: Includes only loans and participations that are to be depledged and may be used to depledge collateral outside of your normal update schedule. Depledged loans and participations should not be included on the next Standard MCU. See Table 2 for the file format specifications.
- **Renumber MCU**: Used to change the loan numbers of collateral already in the Bank's database. Before submitting a Renumber MCU, you must provide the Bank with written notification of your intent to renumber your loans and the effective date of the change. See Table 3 for the file format specifications.

Mortgage Collateral Update Transmittal Letter

A Mortgage Collateral Update Transmittal Letter (FC 1547) must be submitted with each MCU. The MCU Transmittal Letter may be signed by an individual authorized on one of the following:

- Resolution and Authorization: Member Transactions (FC 2065)
- Certificate of Designated Persons – Entire Authority (FC 2066)
- Certificate of Designated Persons – Collateral (FC 2068)

The completed MCU Transmittal Letter must indicate the total number of loans on the update and the total unpaid principal balance.

If you are submitting a Pledge Only, Streamlined (Update Only), Depledge Only, or Renumber MCU, please indicate the type of update in the appropriate section of the MCU Transmittal Letter.

Mortgage Collateral Management System

The Bank's Mortgage Collateral Management (MCM) system uses loan data reported by the member on the

Mortgage Collateral Update (MCU) to calculate a borrowing capacity for each loan or participation pledged. The MCM system automatically compares newly submitted information to the information already stored in the database. The Bank may accept, reject, or value collateral as deemed necessary and appropriate by the Bank. No value will be assigned to a member's specific identification collateral without a current MCU.

Since the MCM system is a comparison database, processing of a Standard MCU causes the following types of changes:

- Loans and participations included on the new MCU that were already in the database are updated to reflect the data reported on the new MCU.
- Loans and participations included on the new MCU that were not already in the database are added to the database and pledged to the Bank.
- Loans and participations that were in the database previously but are not included on the new MCU are removed from the database and depledged, subject to Bank approval. (See Release of Pledged Collateral.)

MCU Reports

The MCU Status report on the Bank's member portal provides high level data from the most recently processed MCU from your institution. In addition, the Bank emails the following reports to the member each time a new MCU is received by the Bank and processed:

- MCU Summary report – Provides detailed information about data and eligibility issues and helps members prioritize their efforts to address data problems to improve borrowing capacity
- MCU Loan Level report – Shows identified data and eligibility issues at the individual loan level

Members can review these reports to see how many loans were accepted, how many were rejected, and for what reasons. The member can also see how many of the loans that were accepted have data issues that, in most cases, can be remedied by cleaning up missing or incorrectly reported fields. The member has the option of fixing the data issues right away and submitting a revised MCU to improve borrowing capacity or fixing the data issues on its next MCU.

Reporting Frequency

A Standard MCU or Streamlined MCU (Update Only) is required on a monthly basis. The Bank may require more frequent reporting based on the member's financial condition, the composition of collateral, or other relevant factors.

The member is responsible for ensuring that its updated information is submitted by the due date.

Borrowing Capacity Report

After processing a member's MCU, the Bank posts an updated Borrowing Capacity report to the member portal. The Bank may also email an updated report to a member upon request. From this report, you can verify unpaid principal balances, market value, and borrowing capacities assigned to your loan collateral. If you note any discrepancies on the Borrowing Capacity report, you must notify Collateral Operations in writing within 7 business days from the date of the report. If the Bank does not receive this notice within 7 business days, the Bank will assume its records are accurate and will rely on those records in its transactions with your institution.

Past Due MCUs

Borrowing Members

If a member does not submit its MCU by the due date, the Bank may reduce the member's borrowing capacity. If a member cannot submit its MCU by the due date, and the member has a plan to rectify the situation, the Bank may extend the due date by up to 15 business days from the original due date.

- A letter will be sent to the member to confirm the agreement.
- The Bank's Senior Vice President, Chief Banking Officer, must approve any request for an extension

beyond the 15 days.

- If an updated MCU is not received by the final due date, the member's financing availability will be set to zero and the Bank will take other appropriate steps. The member will not be able to borrow additional funds without approval from the Bank's Senior Vice President, Chief Banking Officer.
- Upon receipt of an updated MCU, the member's financing availability will be restored.

Non-Borrowing Members

- If a member cannot submit its MCU by the due date, its borrowing capacity will be set at zero.
- Upon receipt of an updated MCU, the member's borrowing capacity will be restored.

Release of Pledged Collateral

The Bank may refuse to release its security interest in loan collateral under the following conditions:

- If the requested release would cause the borrowing capacity of the member's remaining collateral to fall below the member's required collateral maintenance level.
- If the member is in default.
- If the information provided to the Bank is incomplete.
- Other reasons as determined by the Bank in its sole discretion.

File Format Specifications: Streamlined MCU (Update Only), Depledge Only, and Renumber

- Use these specifications to ensure that each field is large enough to display all data contained within it and that all fields are formatted correctly.
- Please contact Collateral Operations to review a sample file created according to these specifications.

Table 1: Streamlined MCU (Update Only)

Field Number	Field Name	Field Format	Comments
1.	loan_number	Character	• Each loan must have a unique loan number unless differentiated by a branch number. • If loan number has leading zeros, text format is required. • Maximum number of characters is 20
2.	branch_id	Character	• Optional – assigned by member. • If not used, enter 0.
3.	loan_as_of_date	Date	• MM/DD/YYYY
4.	current_loan_balance	Numeric	• Omit dollar sign and commas. • Include decimal point and cents.
5.	paid_to_date	Date	• MM/DD/YYYY
6.	cur_interest_rate	Numeric	• Current interest rate • Format as decimal – e.g., express 4.125% as 0.04125
7.	monthly_pi_payment	Numeric	• Omit dollar sign and commas. • Include decimal point and cents.
8.	next_interest_rate_chg_date	Date	• MM/DD/YYYY
9.	next_payment_change_date	Date	• MM/DD/YYYY
10.	payment_delinq_history	Character	• History of prior 12 months in a 12-character string format, where “0” represents an on time payment and “1” represents a payment over 30 days past due, starting with most recent payment
11.	num_times_delinq_past	Numeric	

Table 2: Depledge Only MCU

Field Number	Field Name	Field Format	Comments
1.	Tran Code	Alpha	• Enter “S” for Special Depledge Only.
2.	Loan Number	Text	• Each loan must have a unique loan number unless differentiated by a branch number. • If loan number has leading zeros, text format is required.
3.	Pool	Numeric	• Enter 0.
4.	Branch	Numeric	• Optional – assigned by member. • If not used, enter 0.
5.	Original Amount	Numeric	• Omit commas and dollar signs. • Include cents and decimal point.
6.	FHFB Number	Numeric	• If you do not know your FHFB Number, contact Collateral Operations.

Table 3: Renumber MCU

Field Number	Field Name	Field Format	Comments
1.	Tran Code	Alpha	• Enter “N” for a Renumber MCU.
2.	FHFB Number	Numeric	• If you do not know your FHFB Number, contact Collateral Operations.
3.	Old Pool	Numeric	• Enter 0.
4.	Old Branch	Numeric	• Optional – assigned by member. • If not used, enter 0.
5.	Old Loan Number	Text	• Enter the loan number as it was listed on the previous MCU. • If the loan number has leading zeros, text format is required.
6.	New Pool	Numeric	• Enter 0.
7.	New Branch	Numeric	• Optional – assigned by member. • If not used, enter 0.
8.	New Loan Number	Text	• Enter the loan number as it will appear in future MCUs. • If the loan number has leading zeros, text format is required.

Blanket Lien Pledging: Mortgage Loans and Participations

Under the blanket lien pledging method, members grant a blanket lien to the Bank on all loans secured by real estate; all loans made for commercial, corporate, or business purposes; and all participations in these loans.

Member Eligibility

All members except insurance company and CDFI members may pledge loan collateral under blanket lien.

If a member has a pre-existing lien with another creditor on collateral covered by the Bank's blanket lien (e.g., with the Federal Reserve Bank or with a corporate credit union), the Bank will determine whether an Intercreditor Agreement, security agreement amendment, or Subordination Agreement is required. (See Intercreditor Agreement, Security Agreement Amendment, and Subordination Agreement.)

Blanket lien pledging is required for members that must deliver loan collateral to the Bank or for members that have experienced a deterioration in credit quality.

In addition, eligible CFI members must pledge under blanket lien to receive borrowing capacity on their small business, agribusiness, and farm loans automatically. (For more information, see Blanket Lien Pledging: Small Business, Agribusiness, and Farm Loans.)

Reporting Methods

The Bank assigns a borrowing capacity to eligible collateral based on the member's pledging and reporting methods. (See Loan Collateral Borrowing Capacity.) There are two blanket lien reporting methods: detailed reporting and summary reporting.

Detailed reporting: Members submit a data file that lists individual, eligible mortgage loans and participations each quarter.

Summary reporting: For commercial banks, savings institutions, and industrial loan companies, the Bank automatically collects collateral data from the member's regulatory financial reports. The member will generally not be required to submit data. Because of limitations in regulatory data reporting, credit union members must submit a quarterly Blanket Lien Collateral Certification (FC 2241) that shows the total amount of eligible collateral for each collateral type.

The member may select either detailed or summary reporting to pledge each of the following collateral types under blanket lien:

- Residential first lien mortgage loans and participations
- Multifamily first lien mortgage loans and participations
- Commercial first lien mortgage loans and participations
- Residential second lien mortgage loans and HELOCs

Detailed reporting is required for:

- delivered loans (monthly reporting required)
- loans held for sale

Required Documents

To pledge under blanket lien, you must submit a Pledging and Reporting Designation (FC 2237) in accordance with your institution's authorizations on file with the Bank. You must also sign an Advances and Security Agreement with a revision date of June 2004 or later. Other forms may be required depending on your reporting method.

Eligible Collateral

The following mortgage loans and participations are eligible to receive borrowing capacity:

- Residential first lien mortgage loans and participations

- Multifamily first lien mortgage loans and participations
- Commercial first lien mortgage loans and participations
- Residential second lien mortgage loans and HELOCs and participations

Loan Collateral Not Eligible to Receive Borrowing Capacity

All loans and participations pledged under blanket lien remain subject to the blanket lien, including those that are not eligible to receive borrowing capacity. Loans and participations not eligible to receive borrowing capacity are identified in Loans: Eligibility: Mortgage Loans and Participations: Ineligible Loans.

How to Report Loan Collateral – Detailed Reporting

Under detailed reporting, members submit a data file containing certain required loan data with respect to eligible loans and participations. Detailed reporting under blanket lien is similar to the reporting process under specific identification.

The Bank accepts file formats defined by the member that satisfies the Bank's data requirements. For more information, call Collateral Operations at 415-616-2980.

Each data file must be accompanied by a Mortgage Collateral Update Notification (FC 2243) indicating the total number of loans in the file and the total unpaid principal balance.

Reporting Frequency

A complete data file that lists all reported loans and participations is required at least once every 90 days. The Bank may require more frequent reporting based on the member's financial condition, the composition of collateral, or other relevant factors. Members that are required to deliver loan collateral must report monthly.

The member is responsible for ensuring that its updated information is submitted by the due date.

How to Report Loan Collateral – Summary Reporting: Commercial Banks, Savings Institutions, and Industrial Loan Companies

For commercial banks, savings institutions, and industrial loan companies that have chosen summary reporting, the Bank determines borrowing capacity for eligible asset classes on a quarterly basis using the regulatory financial data reported on the member's TFR or Call Report, the Blanket Lien Collateral Eligibility Questionnaire-Summary Reporting (FC 2242), and the results of the most recent collateral field review. Every six months, the member is required to submit a Blanket Lien Collateral Eligibility Questionnaire—Summary Reporting with loan portfolio reports or other documentation to support the information provided in the questionnaire.

How to Report Loan Collateral – Summary Reporting: Credit Unions

The Bank is unable to calculate borrowing capacity directly from a credit union's regulatory financial report. To report aggregate data on the loan collateral pledged to the Bank under blanket lien, the credit union must complete a Blanket Lien Collateral Certification (BLCC) (FC 2241) each quarter. The Bank will use this aggregate loan data in the calculation of borrowing capacity.

Authorization

An individual who is authorized on one of the following must sign the BLCC:

- Resolution and Authorization: Member Transactions (FC 2065)
- Certificate of Designated Persons — Entire Authority (FC 2066)
- Certificate of Designated Persons — Collateral (FC 2068)

Reporting Frequency

The credit union is required to provide the Bank with an updated BLCC within 45 days following the end of each calendar quarter, or more often, as directed by the Bank. The member is responsible for ensuring that an updated BLCC is submitted by the due date. In addition, every six months the member is required to submit loan portfolio reports or other documentation to support the information provided in the BLCC.

Borrowing Capacity Report

After updating a member's loan collateral information, the Bank posts an updated Borrowing Capacity report to the member portal. The Bank may also email an updated report to a member upon request. From this report, you can verify unpaid principal balances, market value, and borrowing capacities assigned to your loan collateral. If you note any discrepancies on the Borrowing Capacity report, you must notify Collateral Operations in writing within 7 business days from the date of the report. If the Bank does not receive this notice within 7 business days, the Bank will assume its records are accurate and will rely on those records in its transactions with your institution.

Release of Blanket Lien Collateral

Loan collateral pledged under blanket lien (including collateral not eligible to receive borrowing capacity) may be pledged, sold, or conveyed to a third party only if and to the extent that the collateral is not needed to secure current outstanding credit and if the member is not in default.

Blanket Lien Pledging: Small Business, Agribusiness, and Farm Loans

Small business, agribusiness, and farm loans are pledged under a blanket lien. To pledge these loan types, members must pledge all loan collateral under blanket lien by executing an Advances and Security Agreement (FC 2117) revised June 2004 or later and completing a Pledging and Reporting Designation (FC 2237).

Reporting Methods

Small business, agribusiness, and farm loans are usually pledged under blanket lien with summary reporting. Eligible members automatically receive borrowing capacity on these loans based on their quarterly regulatory financial data. There are no additional reporting requirements.

Small business, agribusiness, and farm loans may also be pledged under blanket lien with detailed reporting for members approved by the Bank. The member provides loan level data to the Bank each quarter along with a CFI Blanket Lien Collateral Certification. A satisfactory CFI collateral field review is required for approval to pledge using this reporting method.

Assignment of Borrowing Capacity

The Bank determines the borrowing capacity of small business, agribusiness, and farm loans by multiplying the borrowing capacity percentage as determined in the collateral field review by the aggregate unpaid principal balance of eligible CFI collateral as reported on the member's call report or Thrift Financial Report (for summary reporting) or as reported on the CFI Blanket Lien Collateral Certification (for detailed reporting).

Borrowing Capacity Report

After updating a member's borrowing capacity, the Bank posts an updated Borrowing Capacity report to the member portal. The Bank may also email an updated report to a member upon request. From this report, you can verify unpaid principal balances, market value, and borrowing capacities assigned to your loan collateral. If you note any discrepancies on the Borrowing Capacity report, you must notify Collateral Operations in writing within 7 business days from the date of the report. If the Bank does not receive this notice within 7 business days, the Bank will assume its records are accurate and will rely on those records in its transactions with your institution.

Release of Blanket Lien Collateral

Small business, agribusiness, and farm loans pledged under blanket lien (including collateral not eligible to receive borrowing capacity) may be pledged, sold, or conveyed to a third party only if and to the extent that the collateral is not needed to secure current outstanding credit and if the member is not in default.

Loan Delivery Required

The Bank permits most members to physically hold the loan documents for pledged loan collateral in trust for the benefit of the Bank as provided in the Advances and Security Agreement. However, the Bank may require a member to physically deliver all of its pledged loan collateral and any related files and records to the Bank or to the Bank's custodian at any time.

The Bank will determine whether delivery will be made to the Bank or to the Bank's custodian and will establish a delivery due date. While the Bank reserves the right to require delivery upon 2 business days' notice, under most circumstances the Bank will give the member 30 days to deliver all pledged loans and an updated MCU data file. If the member has provided an MCU data file within the last month, a new MCU data file may not be required at the time of delivery.

When loan delivery is required, loan collateral must be pledged under blanket lien with detailed reporting.

The Bank may require delivery for one or more of the following reasons:

- The member is an insurance company or a CDFI.
- The member is subject to a regulatory enforcement action.
- The member's financial or operating condition is such that the Bank deems itself insecure.
- The member is undercapitalized, significantly undercapitalized, or critically undercapitalized, according to the PCA classifications.
- The member has unsatisfactory collateral monitoring and risk controls.
- The Bank deems delivery appropriate for any reason, as provided in the Bank's Advances and Security Agreement.

If a member becomes subject to the Bank's loan collateral delivery requirement, its collateral maintenance requirement will be increased to cover potential prepayment fees, if any, on outstanding Bank credit. This amount is typically adjusted on a monthly basis, but may be adjusted more frequently at the Bank's discretion.

Pledging and Reporting Methods

For all members except insurance companies and CDFIs, blanket lien pledging with detailed monthly reporting is required if loan collateral must be delivered to the Bank. Insurance company and CDFI members are required to pledge under specific identification with monthly reporting.

Required Documents

Members required to deliver loan collateral must sign an Advances and Security Agreement revised June 2004 or later.

Borrowing Capacity

See Loan Collateral Borrowing Capacity for information on the Bank's calculation of borrowing capacity.

How to Deliver Loans

Loan documents are to be delivered to the Bank (Federal Home Loan Bank of San Francisco, Mortgage Collateral Vault, 600 California Street, Suite 300, San Francisco, California 94108) or to the Bank's custodian (Wells Fargo Bank, N.A., 751 Kasota Avenue, Suite MDC, Minneapolis, MN 55414). The loan documents are the responsibility of the member until the documents are physically received and acknowledged by the Bank or by the Bank's custodian.

When delivery will be made to the Bank, a Safekeeping Agreement will be executed by the member and the Bank.

When delivery will be made to the Bank's custodian, a tri-party custody agreement will be executed by the member, the Bank, and the Bank's custodian.

The delivery must include:

- A Mortgage Collateral Update (MCU) for all delivered loans.
- A Mortgage Collateral Update Transmittal Letter (FC 2243).
- Historical summary of your institution's corporate name(s). This should include institutions that have been acquired.
- Member's Federal Express (FedEx) or United Parcel Service (UPS) number

Each loan package must be top-center stapled and include the following documents in the order indicated:

1. Original promissory note
   - Modifications, riders, powers of attorney, assumption agreements, and addenda to the note, if applicable. Power of attorney may be a copy certified by the title or escrow company.
   - The Bank generally does not require the original note to be endorsed to the Bank, but may in certain circumstances. If endorsement is required, the note should be endorsed as follows: "Pay to the Order of Federal Home Loan Bank of San Francisco Without Recourse." The endorsement must state the name of your institution and be signed in accordance with the authorizations on file with the Bank. The Bank will accept facsimile signature(s) for endorsing notes pledged as collateral.
   - When the member is not the originator of the note, the note should reflect the proper chain of endorsements from the originator to the member.
   - There are no other uncancelled endorsements on the note. In the event a note was erroneously endorsed to another entity, mark "cancelled" across it.
   - If the endorsement is necessary for a valid chain, do not cancel it.
   - The loan number on the face of the note must match the loan number on the MCU exactly.
2. Original or certified copy of the recorded mortgage/deed of trust
   - The mortgage/deed of trust is stapled behind each note.
   - The note and mortgage/deed of trust are for the same property, and the same borrower(s) have executed both documents properly.
   - A copy of the original mortgage/deed of trust may be substituted if certified by a title company or recorder's office to be a true and exact duplicate of the original sent for recordation.
   - Modifications, riders, powers of attorney, addenda to the mortgage/deed of trust, and certificates of completion of construction, if applicable.
3. The Bank generally does not require a corporate assignment to the Bank, but may in certain circumstances. If an assignment is required, the original, properly executed corporate assignment in recordable form should be assigned to the Federal Home Loan Bank of San Francisco for each delivered loan. Recordable form includes the following:
   - Name of borrower
   - Name of mortgagee/trustee
   - Name of beneficiary
   - Recording date
   - Recording information (book and page or microfiche)
   - Assignors' signatures notarized

   Person(s) authorized on the member's current authorizations on file with the Bank must sign the assignment form, and the assignment form must be notarized. A corporation assignment template that you can use as a guide is available in the Collateral Forms section of the Bank's member portal. Please note that the final corporation assignment you include in your loan delivery must be in recordable form and meet the requirements of the applicable jurisdiction.
4. Any and all other corporate assignments corresponding to the chain of endorsements on the note, attached in reverse chronological order. Corporate assignments should be originals with recording information or copies of the original recorded documents certified by a title company or recorder's office to be a true and exact duplicate of the original.
5. Original participation certificate for purchased participations and evidence of original loan participation

amount and percentage of participation purchased. Custodial requirements must be reviewed with the Bank prior to the delivery of pledged participations.

6. Copy of participation agreement for all participations (retained or purchased). All participation agreements must be reviewed by the Bank.
7. Original or copy of the title insurance policy (or title commitment, title report, or abstract)
8. Additional documents, such as appraisals or mortgage insurance certificates should only be delivered if requested. Additional requirements apply to the delivery of multifamily and commercial loans.

Loan packages should be boxed in order, sorted first by pool number, then by branch number, then by loan number, as applicable, in ascending alphanumeric sequence.

If the collateral shipment is composed of multiple boxes, the boxes should be numbered sequentially. The MCU and required forms and reports should be enclosed in the first box. The MCU should contain the total portfolio of pledged loan collateral, including records of any newly pledged loan collateral.

The Bank, in its sole discretion, may waive some of the above documentation requirements. Contact your Collateral Asset Manager for details.

How to Request Release and Return of Delivered Loan Collateral

To request release of the Bank's security interest in delivered loan collateral, the member must submit the following items:

- Completed Mortgage Collateral Update Notification: Blanket Lien—Detailed Reporting form (FC 2243) signed by an authorized signer for the member.
- Electronic listing (and any other writings required by the Bank) of the loan collateral to be released and returned.
- The Bank may also require a certification from a duly authorized signer for the member certifying that immediately after the release, the borrowing capacity of the member's remaining collateral will not be less than the member's required collateral maintenance level.

The Bank has no obligation to release its security interest in any delivered loan collateral if:

- The requested release would cause the borrowing capacity of the member's remaining collateral to fall below the member's required collateral maintenance level.
- The member is in default.
- Any information provided to the Bank is incomplete.
- Other reasons as determined by the Bank in its sole discretion.

The Bank will release its security interest in loan collateral and return the related loan documents to the member through any delivery service or courier designated by the member at the member's expense. Upon release, the documents become the sole responsibility of the member. The Bank will not insure the documents. The member may make other insurance arrangements at its expense.

Other Requirements

Members required to deliver loan collateral may be required to provide additional loan servicing data for pledged loans.

Fees

Members required to deliver loan collateral to the Bank will be charged the Bank's standard document review and safekeeping fees and will be billed for all costs incurred by the Bank associated with the renumbering of loan collateral.

The following is a list of the fees that may be assessed on loan collateral delivered to the Bank:

Monthly custody fee (per loan)	$0.30
Processing	$2.50

Review	$2.50
Withdrawal	$3.00
Loan renumber	$2.50
Re-barcode	$1.00
Correct loan number	$0.10
Deposit of additional/missing documents	$1.00
Miscellaneous services	At cost
Copy of Note:	
U.S. mail	$1.00 per page
Fax	$1.50 per page

Members required to deliver loan collateral to the Bank's custodian will be charged the following document review and safekeeping fees:

Monthly custody fee (per loan)	$0.20
Processing and review	$4.00
Withdrawal	$3.00
Initial MCU file set up	$1,000.00
Deposit of additional/missing documents	$2.00
Miscellaneous services	At cost
Copy of Note:	
U.S. mail	$1.00 per page
Fax	$1.50 per page

Loan Collateral Borrowing Capacity

For each member, the Bank determines the maximum amount the member may borrow against its pledged loan collateral, known as the borrowing capacity. For real estate loan collateral, the borrowing capacity is calculated by applying a borrowing capacity percentage to the assigned market value of the eligible collateral, as determined by the Bank. For small business, agribusiness, and farm loans, the borrowing capacity is calculated by applying a borrowing capacity percentage to the unpaid principal balance of the eligible collateral.

At all times, the aggregate borrowing capacity of a member's pledged collateral must meet or exceed the total amount of the member's outstanding advances, other extensions of credit, and certain other member obligations and liabilities. (See Collateral Maintenance Requirement.)

Factors Affecting Borrowing Capacity

The borrowing capacity assigned to individual members varies according to several factors, including:

- collateral type
- pledging method used (specific identification or blanket lien)
- amount of loan data provided (detailed or summary reporting)
- value assigned to the collateral
- member's financial strength and condition
- type of member (e.g., CFI or insurance company)
- results of the Bank's field review of the member's collateral
- member-specific risks in a member's pledged loan portfolio, including risks associated with loan portfolios that have a borrowing capacity greater than $3 billion and collateral concentration risks
- amount of support collateral (under blanket lien pledging)
- other factors, as determined by the Bank

Pledging Methods and Data Reporting Frequency

The Bank offers the following pledging methods and data reporting frequencies:

- **Specific identification:** Members with strong credit quality ratings that are not required to deliver loan collateral may provide specific, detailed information about all the loans and participations pledged to the Bank on a monthly basis.
- **Blanket lien:** Members may grant a blanket lien to the Bank, which covers all loans secured by real estate; all loans made for commercial, corporate, or business purposes; and all participations in these loans, whether or not the individual loans are eligible to receive borrowing capacity. There are two blanket lien reporting methods: summary reporting, which is based on aggregate quarterly regulatory financial reports, and detailed reporting, which is based on quarterly detailed loan information provided by the member.

All members may pledge under blanket lien with detailed reporting (except insurance companies and non-depository CDFIs). Only members with higher credit quality profiles may pledge under specific identification or blanket lien with summary reporting.

In general, the highest borrowing capacities are available to members pledging under blanket lien with detailed reporting because the blanket lien provides the Bank with both eligible and ineligible real estate and business loan collateral. In addition, detailed loan information enables the Bank to price loan collateral more accurately. When loan data is missing, the Bank uses conservative default assumptions, which may reduce borrowing capacities.

Assignment of Market Value to Real Estate Loan Collateral

The Bank assigns a market value to the real estate loan collateral pledged by members based on market value prices obtained from external pricing sources on a quarterly basis. The methodology for assigning market value varies according to the pledging option:

- **Loans Pledged Under Specific Identification or Blanket Lien with Detailed Reporting:** The Bank uses market value prices from external pricing sources to assign a market value to all residential first and second lien mortgage loans, multifamily loans, and commercial loans pledged under specific identification or blanket lien with detailed reporting. The market value the Bank assigns to each member's loan collateral is based on the pricing results for the individual eligible loans in its pledged portfolio. The price caps that will be applied to these loans are:
  - Price cap of 103% for residential first lien mortgage loans without negative amortization, multifamily first lien mortgage loans, and commercial first lien mortgage loans
  - Price cap of 100% for residential second lien mortgage loans and HELOCs and for residential first lien mortgage loans with negative amortization
- **Loans Pledged Under Blanket Lien with Summary Reporting:** For loan collateral pledged under blanket lien with summary reporting, the Bank establishes a standard market value for each collateral type based on aggregate quarterly pricing benchmarks.

As part of the field review process, the Bank also prices a sample of the member's pledged loans based on the additional information gathered during the field review. The Bank may decrease the market value it assigns to a member's pledged loan collateral based on the member's field review sample loan pricing results.

The Bank generally adjusts borrowing capacities to reflect the quarterly pricing results, including the pricing results for field review sample loans, in January, April, July, and October each year.

Borrowing Capacity Calculation: Real Estate Loans

To calculate the borrowing capacity of eligible loans, the Bank takes into account a liquidation risk margin that covers the costs and risks of liquidation of loan collateral. This liquidation risk margin also reflects the credit risk profile of the individual member because the Bank places greater reliance on a member's pledged loan collateral when the member's financial condition deteriorates and the potential for liquidation increases.

The Bank periodically reviews and adjusts the liquidation risk margin to reflect current market conditions and the financial condition of individual members.

For real estate loan collateral, the Bank applies a borrowing capacity percentage to the assigned market value of the loans to determine borrowing capacity, with the borrowing capacity percentage calculated as 100% minus the liquidation risk margin. The formula is:

Assigned Market Value	X	Borrowing Capacity Percentage	=	Borrowing Capacity

The actual borrowing capacity percentage assigned to an individual member's pledged real estate loan collateral may differ from the maximum borrowing capacity percentage based on the following member-specific adjustments to the liquidation risk margin:

- **Field review:** The Bank applies non-credit secondary market discounts to all loans for documentation or servicing deficiencies, eligibility, delinquency, and other non-credit-related items identified in the field review of the sample loans. (See the Field Review Discount Table.) The Bank reviews the secondary market discounts regularly and may adjust them at any time as market conditions change.
- **Member-Specific Collateral Risk:** The Bank may increase the liquidation risk margin for an individual member if (i) the member's financial condition has deteriorated and (ii) the member's pledged portfolio has concentrations in high-risk collateral, the unpaid principal balance for any collateral type in the member's pledged portfolio is greater than $3 billion, or the Bank has identified other collateral risks.

The following two tables show the maximum borrowing capacity percentages available for reviewed loan collateral, which apply only if the Bank has conducted a field review of the member's loan files, origination practices, servicing policies, and custodial procedures. For unreviewed loan collateral, the maximum liquidation risk margin is increased by 5%, resulting in a corresponding decrease in the borrowing capacity percentage and a decrease in the member's borrowing capacity.

Table I: Commercial Banks, Credit Unions, Savings Institutions, and Industrial Loan Companies

The maximum borrowing capacity percentages are shown as a range because the borrowing capacity percentages assigned to an individual member's collateral are based on the credit risk profile of that member.

Collateral Type and Pledging Option	Maximum Borrowing Capacity Percentage (Applied to Assigned Market Value)
Residential First Lien Mortgage Loans and Participations Excluding ARMs with Negative Amortization	
Blanket Lien with Detailed Reporting [1]	90% to 85%
Specific Identification	87% to 86%
Blanket Lien with Summary Reporting	82% to 80%
Residential First Lien Mortgage Loans and Participations: ARMs with Negative Amortization [2]	
Blanket Lien with Detailed Reporting [1]	85% to 72%
Specific Identification	82% to 78%
Blanket Lien with Summary Reporting	N/A
Residential Second Lien Mortgage Loans and Participations and HELOCs	
Blanket Lien with Detailed Reporting [1]	77% to 72%
Specific Identification	74% to 71%
Blanket Lien with Summary Reporting	68% to 65%
Multifamily First Lien Mortgage Loans and Participations	
Blanket Lien with Detailed Reporting [1]	88% to 85%
Specific Identification	5% to 84%
Blanket Lien with Summary Reporting	77% to 76%
Commercial First Lien Mortgage Loans and Participations	
Blanket Lien with Detailed Reporting [1]	88% to 82%
Specific Identification	85% to 83%
Blanket Lien with Summary Reporting	76% to 73%

[1] Ranges do not include maximum borrowing capacity percentages for members required to deliver loan collateral because of credit quality issues.

[2] Because of the increased credit and liquidation risk associated with adjustable rate loans that allow negative amortization (also known as payment option ARMs), the borrowing capacity percentage ranges for these loans are lower than for other residential first lien mortgage loans. ARMs with negative amortization that are pledged to the Bank under blanket lien with summary reporting will not be eligible to receive borrowing capacity.

Table II: Insurance Companies

Insurance company members are required to pledge mortgage loans under specific identification with monthly reporting and to deliver loan collateral to the Bank. For multifamily and commercial mortgage loans and participations pledged by insurance company members, a minimum of 25 loans must be pledged, in aggregate, and no single loan may represent more than 7% of the total unpaid principal balance of all multifamily and commercial mortgage loans and participations pledged. The maximum borrowing capacity percentages are shown as a range because the borrowing capacity percentages assigned to an individual member's collateral are based on the credit risk profile of that member.

Collateral Type	Maximum Borrowing Capacity Percentage (Applied to Assigned Market Value)
Residential First Lien Mortgage Loans and Participations	
Specific Identification	45% to 43%
Multifamily First Lien Mortgage Loans and Participations	
Specific Identification	54% to 53%
Commercial First Lien Mortgage Loans and Participations	
Specific Identification	54% to 53%

Table III: Community Development Financial Institutions (CDFIs)

Non-depository CDFIs, including community development loan funds and venture capital funds that are certified by the CDFI Fund, are required to pledge mortgage loans under specific identification with monthly reporting and to deliver loan collateral to the Bank.

Collateral Type	Maximum Borrowing Capacity Percentage (Applied to Assigned Market Value)
Residential First Lien Mortgage Loans and Participations	
Specific Identification with Monthly Reporting	77%
Multifamily First Lien Mortgage Loans and Participations	
Specific Identification with Monthly Reporting	79%
Commercial First Lien Mortgage Loans and Participations	
Specific Identification with Monthly Reporting	76%

Borrowing Capacity Calculation: Small Business, Agribusiness, and Farm Loans

For small business, agribusiness, and farm loans, the Bank applies a borrowing capacity percentage to the unpaid principal balance of the loans under all pledging options. The Bank uses the pass percentage of the loans reviewed in the field review sample to determine the member's borrowing capacity percentage. (See Loan Collateral Review: Small Business, Agribusiness, and Farm Loans: Borrowing Capacity.) The formula is:

Unpaid Principal Balance	X	Borrowing Capacity Percentage	=	Borrowing Capacity

Collateral Type and Pledging Option	Borrowing Capacity Percentage (Applied to Unpaid Principal Balance)
Small Business, Agribusiness, and Farm Loans	
Blanket Lien with Detailed Reporting	50% to 40%
Blanket Lien with Summary Reporting	25% to 15%
Delivery Required	15%

Loan Collateral Review: Mortgage Loans and Participations

Purpose

Pledged loans are subject to periodic review by the Bank. The primary objectives of the loan collateral review are to:

- Understand and assess the nature and liquidation value of the pledged loans
- Educate the member on the Bank's loan eligibility and pledging guidelines
- Determine the appropriate borrowing capacity of a member's pledged loan portfolio
- Preserve the Bank's capital and member's equity by evaluating risk

Scope

In each loan collateral review, the Bank selects a sample of loans from the member's pledged loan portfolio to evaluate the following:

- 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 note, recorded deed of trust, corporate assignments, and other relevant documents are reviewed to confirm that the member has perfected its security interest in the underlying collateral.
- Composition and quality: The underwriting criteria and documents are reviewed to identify deficiencies and high-risk characteristics of the loans in the pledged portfolio (e.g., sub-prime loans, low-documentation loans, missing or incorrect documents, etc.).
- Servicing: The 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.
- Custody: The document custody policies and procedures are evaluated to confirm that the member's custody of the original loan documents adequately protects the Bank's loan collateral in accordance with the Bank's requirements.
- Blanket Lien: For loans pledged under blanket lien with summary reporting, the review will confirm that the amount of loans ineligible to receive borrowing capacity are correctly identified on the Blanket Lien Collateral Eligibility Questionnaire—Summary Reporting (FC 2242).

Frequency

Loan collateral reviews are usually performed every 6, 12, or 24 months. In general, the frequency of a loan collateral review is determined by the following factors:

- Member's financial condition
- Amount of outstanding Bank credit secured by loans
- Concentration of member's outstanding Bank credit relative to the Bank's capital
- Composition and risk profile of loan collateral portfolio
- Turnover in loan collateral portfolio
- Experience and results of previous loan collateral reviews

Loan Sampling

The Bank selects a random sample of loans from the member's pledged loan portfolio based on information provided in the member's data submission for loans pledged under specific identification or blanket lien with detailed reporting. The Bank determines the sample size and scope (if other than that stated above) of the loan collateral review.

For loans pledged under blanket lien with summary reporting, the member must submit an electronic listing of all loans receiving borrowing capacity approximately 60 days prior to the review. The member may submit loan data via CD or email. See Blanket Lien File Format Specifications.

Please contact Collateral Services if you have any questions regarding the set-up process.

Notification

The member will receive a letter and sample loan listing approximately four weeks in advance of the scheduled review date. The letter will detail the materials required for the loan collateral review. See Review Documentation and Other Required Materials for Loan Collateral Reviews.

Onsite Review

Depending on the location of the loan documents, the loan collateral review will occur at the member's facility, the custodian's facility, or both. While the loan collateral review is in progress, the Bank will request a meeting with management to understand the member's goals and operating objectives. The Bank will discuss the member's underwriting and monitoring policies regarding nontraditional and subprime mortgage loans and the member's anti-predatory lending policy. The Bank will also tour the member's or custodian's vault to ensure that the member has possession of the pledged loan documents in a secured and controlled storage facility. If the review takes place at the custodian's facility, the requested meeting will either take place at the member's office or by teleconference.

Borrowing Capacity

During the loan collateral review, each reviewed loan is assigned a rating in the form of a percentage based on non-credit secondary market discounts for documentation deficiencies and ineligibility. See the Field Review Discount Table. The Bank calculates a statistically based loan rating for the sampled loans by collateral type. The loan rating is incorporated in the margin calculation to determine the final borrowing capacity of the loans pledged. Ineligible loans receive a discount of 100% and zero borrowing capacity. The Bank also prices sample loans, taking into consideration credit-related characteristics, to adjust the market value of pledged loans.

Systemic Issues

If the Bank finds a significant amount of ineligible collateral, a significant number of loans subject to discounts, or other systemic problems with a member's pledged loan portfolio, the Bank may, among other things:

- Reduce the borrowing capacity of pledged loans to reflect the impact of the ineligible loans or loan defects
- Increase the sample size to improve the statistics
- Require the member to submit additional information based on the results of the initial review
- Conduct a follow-up review to determine whether the problems have been resolved
- Require delivery of collateral

Collateral Deficiency

If the member is collateral deficient because of ineligible loans, the member must immediately pledge additional eligible collateral to correct the deficiency. (See Collateral Maintenance Requirement.)

Review Results

The Bank will send the member a written confirmation of the review findings for non-credit secondary market discounts, covering documentation deficiencies, data integrity issues, and loan ineligibility, usually within 30 days of the conclusion of the field review.

Review Documentation

The Bank requires that the member provide the following items for each sample loan at the time of the loan collateral review:

Residential First Lien and Second Lien Mortgage Loans and HELOCs

1. Original note*
2. Original deed of trust, riders, modification agreements*
3. Original corporate assignment(s) of the deed of trust* unless loan is MERS registered
4. If loan is MERS registered, the following items are required:
   - MERS Electronic Tracking Agreement
   - MERS MIN number must be submitted on the MCU in the mortgage_id field
   - "Federal Home Loan Bank San Francisco" must be listed as the "associated member" on the MERS system
5. Loan assumption agreement (if applicable)
6. FNMA/FHLMC Appraisal (including original photographs, if possible), broker's opinion of value, short-form appraisal, electronic valuation, drive-by appraisal, or desk appraisal
7. Notice of Completion (if applicable)
8. Title Insurance policy with endorsements
9. For second liens mortgage loans or HELOCs: CLTA insurance coverage, date-down, or preliminary title report (HELOC may be in first or second lien position)
10. Subordination Agreement (if applicable)
11. Loan underwriting information to determine the borrower's creditworthiness, including income/asset documentation and credit reports
12. Other pertinent information to assess the quality of the loan, such as loan insurance certificates, HUD-1 closing statements, and loan approval memoranda
13. Proof of flood insurance, including insurer, amount, and dates of coverage (if applicable)
14. Proof of hazard insurance, including insurer, amount, and dates of coverage
15. Real estate property tax paid-to date or delinquency information (if applicable)
16. Borrower's payment history for the most recent 12 months

* Members required to physically deliver original loan documents must retain photocopies of the original note and the recorded original documents for the field review.

Multifamily and Commercial First Lien Mortgage Loans

1. Original note*
2. Original deed of trust, riders, modification agreements*
3. Original corporate assignment(s) of the deed of trust*
4. Assignment of rents and/or leases (if not included with the deed of trust)
5. Loan assumption agreement (if applicable)
6. Appraisal (including original photographs, if possible)
7. Most recent rent roll**
8. Most recent profit and loss statement on property**
9. Land lease agreement (if applicable)
10. Notice of Completion (if applicable)
11. Title insurance policy with endorsements

12. Subordination Agreement (if applicable)
13. Security Agreement (if applicable)
14. UCC-1 filings (if applicable)
15. Borrower's financial statement (most recent)
16. Personal, partnership, or corporate guarantees
17. Partnership Agreement
18. Corporate Resolution to Borrow
19. Loan approval memorandum
20. Legal correspondence
21. Proof of hazard insurance, including insurer, amount, and dates of coverage
22. Proof of flood insurance, including insurer, amount, and dates of coverage (if applicable)
23. Real estate property tax paid-to date or delinquency information (if applicable)
24. Borrower's payment history for the most recent 12 months

* Members required to physically deliver original loan documents must retain photocopies of the original note and the recorded original documents for the field review.

** Borrowing capacity is largely based on the property's net operating income. Loans with missing or outdated financial information are discounted in the field review. See the Field Review Discount Table.

Other Required Materials for Loan Collateral Reviews

In addition to the sample loan files, the Bank requires that the member provide the following items to the Bank before the loan collateral review:

- Servicing and Origination Questionnaire
- Report of pledged loans with delinquent real estate property taxes
- Delinquency report of all pledged loans sorted by loan number (aging format is preferable)
- Report of pledged loans that have been classified as substandard, doubtful, or loss, sorted by loan number
- Current rate sheet for loans
- Report of pledged loans serviced by others
- Copy of servicing agreements for all pledged loans (if applicable)
- Copy of custodian agreements for all pledged loans (if applicable)
- Report of pledged loans that have been paid off since the last member reporting cycle
- Portfolio concentration or stratification reports
- Copy of most recent internal or third-party audit of servicing and compliance, and management response

Blanket Lien File Format Specifications

For loans pledged under blanket lien with summary reporting, the following loan information should be provided prior to the collateral field review.

- Use these specifications to ensure that each field is large enough to display all data contained within it and that all fields are formatted correctly.
- Files currently being submitted to the Bank must be encrypted and password-protected using PKZip or WinZip to comply with the Bank's minimum security requirement. The password must be sent under separate cover.
- For privacy reasons, do not provide borrower's name.
- The data may be submitted via CD or email (as an encrypted Excel or csv file).
- Please contact Collateral Services to review a sample file created according to these specifications.

Table 1: Blanket Lien Loan Collateral Review: File Format Specifications

Field Number	Field Name	Field Format	Maximum Character Length	Comments
1.	Branch ID	Numeric	1-5	• Enter Branch. If none, enter 0.
2.	Loan Number	Alpha/ Numeric	20	• Each loan must have a unique loan number unless differentiated by a branch number. Format this field as text to retain any leading zeros. For cross-collateralized loans, place a unique check digit (A, B, C, etc.) at the end of each loan number if the loan number is the same for multiple records. **This field is required.**
3.	Original Loan Balance	Numeric	15	• Omit dollar sign, commas, decimal point, and cents. **This field is required.**
4.	Current Loan Balance	Numeric	15	• Omit dollar sign, commas, decimal point, and cents. **This field is required.**
5.	Collateral Type ID	Alpha/ Numeric	1	• Enter 2RB for residential first lien mortgage loans; 4MB for multifamily loans; 7CB for commercial loans; 6RB for residential second lien mortgage loans and HELOC mortgage loans. • For CFI collateral, enter B for business loans; F for farm credit loans; and A for agricultural loans.
6.	Property Sector Type	Alpha	6	• For commercial loans only. Do not abbreviate descriptions. Specify if the loan is a warehouse, hotel, motel, mobile home, retail, or self-storage. **This field is required.**
7.	Note Date	Numeric	8	• Enter the date on the face of the note (or loan origination date) in MM/DD/YYYY format. Make sure this is formatted as a date field. **This field is required.**
8.	Appraised Value	Numeric	15	• The value of the security property as determined by a qualified appraiser using generally accepted appraisal standards. In the case of a purchase money loan, appraised value is defined as the lesser of the purchase price or the value determined by the appraiser. Omit dollar sign, commas, decimal point, and cents. **This field is required.**
9.	Loan Maturity Date	Numeric	8	• Enter the loan's maturity date in MM/DD/YYYY format. Make sure this is formatted as a date field. **This field is required.**
10.	Owner Occupancy Code	Alpha	1	• Indicate owner occupancy status. Enter a P for primary, owner-occupied; S for second home, owner-occupied; and I for investor, non-owner-occupied.
11.	Property City Code	Alpha	35	• Enter the city in which the property is located. Omit commas.
12.	Property State Code	Alpha	2	• Enter the state abbreviation from Table 2.

Field Number	Field Name	Field Format	Maximum Character Length	Comments
13.	Property Zip code	Alpha	9	• Enter a 5-character zip code or 5-digit zip code plus 4. **This field is required.**
14.	Paid to Date	Numeric	8	• Enter the date that the interest is paid through in MM/DD/YYYY format. Make sure this is formatted as a date field.
15.	Underwriting Documentation	Alpha	1	• Designate the amount of underwriting documentation verification. Enter F for full doc; A for alternative doc; N for no doc/low doc; and C for NINA: no income or asset verification.
16.	Debt Service Ratio	Numeric	6	• For income property: the measure of a mortgaged property's ability to cover monthly payments. The ratio of net operating income over mortgage payment.
17.	Negative Amortization Indicator	Alpha	1	• Enter Y for Yes and N for No.
18.	Interest Only ID	Alpha	1	• Enter Y for Yes and N for No.
19.	Current LTV	Numeric	6	• Decimal format (.999). **This field is required.**
20.	FICO	Numeric	3	• Whole number FICO scores. (999)
21.	MERS ID Number (MIN)	Alpha/ Numeric	18	• MIN for loans registered with MERS. If none, enter 0.

Table 2: State Abbreviations: Field 12

Code	State	Code	State	Code	State
AL	Alabama	KY	Kentucky	NY	New York
AK	Alaska	LA	Louisiana	OH	Ohio
AR	Arkansas	MA	Massachusetts	OK	Oklahoma
AZ	Arizona	MD	Maryland	OR	Oregon
CA	California	ME	Maine	PA	Pennsylvania
CO	Colorado	MI	Michigan	RI	Rhode Island
CT	Connecticut	MN	Minnesota	SC	South Carolina
DC	District of Columbia	MO	Missouri	SD	South Dakota
DE	Delaware	MS	Mississippi	TN	Tennessee
FL	Florida	MT	Montana	TX	Texas
GA	Georgia	NC	North Carolina	UT	Utah
HI	Hawaii	ND	North Dakota	VA	Virginia
IA	Iowa	NE	Nebraska	VT	Vermont
ID	Idaho	NH	New Hampshire	WA	Washington
IL	Illinois	NJ	New Jersey	WI	Wisconsin
IN	Indiana	NM	New Mexico	WV	West Virginia
KS	Kansas	NV	Nevada	WY	Wyoming

Table 3: Sample File

This file should consist of the following columns (including the headings) in comma delimited format.

Branch ID	Loan Number	Original Loan Balance	Current Loan Balance	Collateral Type ID	Property Sector Type	Note Date	Appraised Value	Loan Maturity Date	Owner Occupancy Code	Property City Code	Property State Code	Property Zip Code	Paid to Date	Under-writing Documen-tation	Debt Service Ratio	Negative Amortization Indicator	Interest Only ID	Current LTV	FICO	MERS ID # (MIN)
0	200292	262000	252938	2RB	warehouse	05061998	350000	06062011	P	BRET-HARTE	CA	94949	03011999	F	0.13	Y	N	0.09	565	0
0	200399	124250	123497	6RB	office	08091998	177500	06052010	I	ANAHEIM	CA	95443	05051999	A	1.33	Y	Y	0.752	850	0
0	200430	1600000	1597900	4MB	Motel	05062000	2975000	05062012	I	TANZA-NIA	CA	95666	05012000	N	12.51	N	Y	0.245	920	0
0	200484	357700	356300	7CB	retail	01011999	500000	09052014	S	NAPA	CA	87990	05012001	C	5.1	N	Y	0.556	720	0
0	594100	400000	375598	7CB	Hotel	05052000	550000	06052020	I	BAKERS-FIELD	CA	67880	03061998	C	14.5	N	N	0.10	550	0
0	3119106	490000	490000	2RB	self-storage	08091992	650000	01082012	P	LOS ANGELES	CA	95974	03012005	F	44.51	Y	Y	0.62	800	0
0	5942106	150000	135346	4MB	mobile home	09051997	212000	10102020	S	BRENT-WOOD	CA	96700	01012000	A	0.03	N	Y	0.453	815	0
0	7327109	150000	144503	6RB	retail	05052000	275000	09052014	S	SAN FRAN-CISCO	CA	94945	02022000	N	4.5	Y	N	0.22	715	0

Loan Collateral Review: Small Business, Agribusiness, and Farm Loans

A satisfactory CFI collateral field review is required for approval to pledge small business, agribusiness, and farm loans under blanket lien with detailed reporting. The Bank also requires periodic review of a member's small business, agribusiness, and farm loans when the member uses these loan types to secure outstanding credit. Small business, agribusiness, and farm loans are used to secure outstanding credit when pledged securities and residential, multifamily, and commercial loans are not sufficient to collateralize outstanding credit.

Purpose

The purpose of the collateral review is to:

- Understand the quality of the member's loan origination, servicing, and credit administration policies, procedures, and practices.
- Assess the ability of the member's credit staff to perform all necessary functions of loan administration and credit management.
- Verify that the member has perfected all ownership rights to the debt instruments and that the critical legal documents exist, are appropriate to the transaction, and are accessible to the Bank.
- Measure loan quality and eligibility.
- Determine the borrowing capacity percentage for the member's small business, agribusiness, and farm loans.

Frequency

When a member uses only small business, agribusiness, and farm loans to secure outstanding credit, the Bank will schedule a field review within six months. After the initial review, the frequency of subsequent reviews will be determined by the member's reliance on these loan types to secure advances. For members that use small business, agribusiness, and farm loans in addition to other mortgage collateral to secure outstanding credit, the Bank will schedule a field review every 12 to 36 months. These loan types will be reviewed along with other types of mortgage loan collateral pledged.

Scope

- Review and evaluate the member's policies and procedures, grading system, third-party reviews, regulatory examinations, and staff resumes.
- Interview the Chief Credit Officer and other key lending personnel for further understanding of lending strategy, credit management practices, and controls.
- Conduct a file review of a random sample of loans and approve on a pass/fail basis based on the Bank's underwriting criteria.
- Conduct a review of legal documents on a portion of the sample loans.

Loan Sampling

At least 30 days before the field review, the Bank will request that you submit a data file with a list of eligible loans. The list must include, at a minimum:

- Loan number
- Borrower name
- Original note amount
- Unpaid principal balance
- Note date
- Maturity date
- Loan type (member's code)
- Collateral type (business, agribusiness, or farm)
- Loan grade

Files currently being submitted to the Bank must be encrypted and password-protected using PKZip or

WinZip to comply with the Bank's minimum security requirement when transmitting via email or CD. The password must be sent under separate cover.

Please contact Collateral Services if you have any questions regarding the set-up process.

Notification

The member will receive a letter and sample loan listing approximately four weeks before the scheduled review date. The letter will detail the materials required for the loan collateral review. See Review Documentation and Other Required Materials for Collateral Reviews.

Borrowing Capacity

The borrowing capacity percentage is based on the pass percentage of the sample loans in the loan file review, as follows:

Summary Reporting Pass Percentage	Borrowing Capacity Percentage
50% and over	25%
30% to 49%	15%
Up to 29%	0%

Detailed Reporting Pass Percentage	Borrowing Capacity Percentage
70% and over	50%
65% to 69%	45%
60% to 64%	40%
Up to 59%	0%

The pass percentage is calculated using the original note amount rather than the unpaid principal balance because of fluctuating balances of lines of credit and annual operating loans.

Review Results

Upon completion of the collateral review, the Bank will send the member a written confirmation of the findings of the loan collateral review within 60 days after the completion of the review.

Loan Eligibility and Underwriting Guidelines

The Bank will determine loan eligibility at the time of the collateral field review.

Eligible Loan Types

- Secured lines of credit
- Working capital loans
- Accounts receivable and inventory financing
- Intermediate and long-term loans for capital assets

Eligible Loan Purposes

- Finance growth or provide working capital
- Finance operating costs
- Finance accounts receivable and inventory
- Purchase or refinance of capital assets
- Refinance of existing debts (if those debts have been performing as agreed)

Evaluation of Loan Quality

The Bank uses the Robert Morris Associates (RMA) definition of "average loan risk" and the "five C's of credit" to determine the credit quality of a loan. Loan quality is assessed on a pass/fail basis.

According to the RMA definition, a business with "average loan risk" is defined as one that has reasonably predictable earnings, cash flow, and debt service ability. Trends are generally positive, but may not be consistently stable. Performance ratios are generally average, and its leverage is acceptable. Serious financial deterioration in the borrower's industry is unlikely. Assets are of average quality and condition and have good utility. The business is reasonably able to refinance debt with other institutions. The DSCR is average compared to the industry. The management team is paid an average compensation and has the ability to deal with adversity. There is depth in management experience in the industry, along with continuity of management. The quality of the financial statements is average.

General Underwriting Guidelines

- Profitability: Loans should be to businesses and farms that are currently profitable and have been profitable for three out of the last five years for loans over $150,000, and for two out of the last three years for loans of $150,000 or less.
- Age of Enterprise: Loans should be to businesses and farms that are at least five years old for loans over $100,000, and at least three years old for loans $100,000 or less.
- Market trends and dependability should be addressed when analyzing repayment. Continuity of operation, type of capital investment, and quality of business or agricultural operation should be considered. Trend lines should be stable to positive for sales, profitability, and cash flow.
- Loans must have personal guarantees from the owners, partners, or principals.
- Business plans are required on all operating loans over $2 million. The business plan on operating loans must include projections and break-even analysis illustrating adequate cash flow, growth, and sound business and financial strategies.

Field Review Discount Table

The field review discount table lists the non-credit secondary market discounts applied by the Bank to loans for documentation or servicing deficiencies, eligibility, delinquency, and other non-credit-related items identified in the field review of the sample loans.

Explanation	Non-Credit Secondary Market Discount
Ownership and Existence	
Lost note affidavit with copy of original promissory note	3%
Minor errors on note, deed of trust, or corporate assignment	1%
Incorrect note, deed of trust, or corporate assignment	5%
Missing or incorrect other legal documents	2%
Title insurance does not exist	5%
Final title policy is missing, incorrect, or not ALTA	1%
Endorsement 111.8 missing and policy amount does not cover negative amortization	1%
Original participation agreement/certificate is incorrect or incomplete	5%
Composition and Quality	
Loan is secured with additional collateral	3%
Cross-collateralized loan	2%
High-Risk Characteristics	
First lien mortgage originated with concurrent second lien mortgage > 80% CLTV at origination	5%
Second lien mortgage recorded concurrently with first lien mortgage (simultaneous second)	5%
Documentation	
Missing credit documents	1%
Inadequate residential appraisal (Not full appraisal, AVM or BPO only)	2%
Missing residential appraisal (No property valuation)	5%
Unsatisfactory or unique property	10%
Missing or inadequate income property appraisal	5%
Missing narrative appraisal for commercial loans > $1 million	5%
Missing engineering survey; property condition not adequately addressed in appraisal	2%
Missing environmental report by appraiser or other qualified party	2%
Debt Service Coverage Ratios – Multifamily and Commercial Loans Operating statements must be less than 18 months old to be considered current	
No current operating statements; only leases in file	5%
No current operating statements; only business P&Ls provided	5%
No current operating statements (loans ≤ $500,000)	5%
No current operating statements (loans > $500,000 and ≤ $1 million)	10%
No current operating statements (loans > $1 million and ≤ $2 million)	15%

Explanation	Non-Credit Secondary Market Discount
No current operating statements (loans > $2 million)	20%
Servicing	
Hazard insurance is delinquent or incorrect	1%
Flood insurance is delinquent or missing or incorrect	1%
Taxes are delinquent over 1 year up to 3 years	5%
Taxes are delinquent up to 1 year	2%
Servicing rights to the loan have been sold	5%
Loan is serviced by a third party	1%
Property taxes are not tracked	2%
Hazard insurance is not tracked	2%
Data Integrity	
Multifamily loan is miscoded as residential	1%
Commercial loan is miscoded as residential	3%
Commercial loan is miscoded as multifamily	4%
Second lien mortgage is miscoded as residential first lien mortgage	33%
Ineligible Loans: Property Types	
Construction loan	100%
Environmentally impaired property	100%
Land loan	100%
Unseasoned builder/developer loan	100%
Cooperative unit	100%
Single or special purpose property	100%
Management intensive property	100%
Property is in violation of local zoning standards	100%
Substandard property	100%
Litigation pending or in process	100%
Loan with ineligible private transfer fee covenant	100%
Ineligible Loans: Loan Types	
Participation with retained portion sold to FHLMC	100%
Joint venture/equity participation by member	100%
Officer, director, or employee loan	100%
Income property junior lien or revolving lines of credit	100%
Residential mortgage not in first or second lien position	100%
Collateral is ineligible per Bank guidelines	100%
Loan exceeding Bank criteria for high cost; high fee loan	100%
SBA guaranteed loan is not eligible (SBA 7A program)	100%

Explanation	Non-Credit Secondary Market Discount
Loan to facilitate	100%
Leasehold interest property does not meet Bank guidelines	100%
Ineligible Loans: Delinquency	
Classified loan	100%
Payment history is missing	100%
Defaulted loan	100%
Payments are 60+ days delinquent	100%
Loan with delinquency history (three or more 30-day late payments or two or more 60-day late payments in the last 12 months	100%
Taxes are delinquent more than 3 years	100%
Property has no hazard insurance coverage	100%
Ineligible Loans: Underwriting	
Loan term exceeds maximum of 40 years	100%
Matured loan	100%
Residential first lien mortgage over 100% LTV	100%
HELOC or residential second lien mortgage over 100% CLTV	100%
Multifamily or commercial loan over 80% LTV at origination (0-12 months payment history)	100%
Multifamily or commercial loan over 100% current LTV (Over 12 months payment history)	100%
Multifamily or commercial loan with debt service coverage ratio < 1.00x at origination (0-12 months payment history)	100%
Residential first lien mortgage with FICO < 620 at origination (0-12 months payment history)	100%
HELOC or second lien mortgage with FICO < 620 at origination (0-12 months payment history)	100%
Loan with holdback > 10% of unpaid balance	100%
Nontraditional/subprime mortgage with excessive layers of risk characteristics	100%
Loan does not comply with Interagency Guidance on nontraditional and subprime mortgage loans	100%
Residential loans originated after January 2017 that do not meet the Ability to Repay requirements of the Consumer Finance Protection Bureau	100%
Ineligible Loans: Documentation	
Loan with partial reconveyance is not fully secured	100%
All inclusive deed of trust	100%
Missing recorded deed of trust or evidence of recording (loan > 3 months seasoned)	100%
Loan documents contain mandatory arbitration clause	100%
Missing recorded corporate assignment for deed or mortgage	100%
Missing original promissory (no lost note affidavit)	100%

Explanation	Non-Credit Secondary Market Discount
Missing or invalid endorsement on promissory note	100%
Missing original participation certificate or agreement	100%
FHLBank Legal Agreement for participated loan has not been executed, if applicable	100%

Appendix A. Additional Collateral Requirements for Insurance Companies

The Bank's insurance company members are subject to the collateral policies and procedures described in this Collateral Guide, including some additional requirements that are discussed in the relevant sections of the guide. For ease of use, the additional collateral requirements that apply only to insurance company members are summarized in this appendix.

Securities

Insurance company members may pledge the following types of securities:

- Treasury securities
- Agency securities
- Bank term deposits
- Private label, non-Agency, commercial mortgage-backed securities: publicly registered, AAA-rated, senior tranches only

The Bank assesses the credit quality of each insurance company member to determine which borrowing capacity percentages it will receive. The borrowing capacity for securities pledged by insurance company members may vary according to the effective duration of the securities. (See Eligible Securities: Borrowing Capacity Tables: Table II and Table III.)

Mortgage Loans and Participations

Eligibility

Insurance company members may pledge the following types of loan collateral:

- Residential first mortgages without negative amortization
- Multifamily mortgages
  - The remaining term of the loan must be at least 3 years
  - The loan must have a prepayment penalty provision
- Commercial mortgages
  - The remaining term of the loan must be at least 3 years
  - The loan must have a prepayment penalty provision
- Retained participations in residential first mortgages, multifamily and commercial loans (member or member's affiliate must be the servicer of the loan)

Insurance company members may not pledge:

- Residential first mortgages with negative amortization
- Residential second mortgages and home equity lines of credit
- Purchased participations

If an insurance company member wants to pledge multifamily and commercial mortgage loans and participations, the member must pledge a minimum of 25 multifamily and commercial mortgage loans and participations, in aggregate, and no single loan may represent more the 7% of the total unpaid principal balance of all multifamily and commercial mortgage loans and participations pledged.

Loan Collateral Pledging and Delivery

Insurance company members are required to pledge loans under specific identification and to deliver all pledged loan collateral.

Loan Collateral Borrowing Capacity

The maximum borrowing capacities for mortgage loans pledged by insurance company members are different than for depository members. See Borrowing Capacity Calculation: Real Estate Loans, Table II.

Servicer Requirements

When mortgage collateral is serviced by an affiliate or an entity other than the member, a Servicer Acknowledgement and a copy of the servicing agreement is required prior to the assignment of borrowing capacity.

Appendix B. Additional Collateral Requirements for CDFIs

Non-depository CDFIs, including community development loan funds and venture capital funds that are certified as community development financial institutions by the CDFI Fund of the U.S. Department of the Treasury are subject to the collateral policies and procedures described in this Collateral Guide, including some additional requirements that are discussed in the relevant sections of the guide. For ease of use, the additional collateral requirements that apply only to non-depository CDFIs are summarized in this appendix.

Securities

Non-depository CDFIs may pledge the following types of securities:

- Treasury securities
- Agency securities
- Bank term deposits
- Private label, non-Agency, commercial mortgage-backed securities: publicly registered, AAA-rated, senior tranches only

The Bank assesses the credit quality of each CDFI member to determine which borrowing capacity percentages it will receive. The borrowing capacity for securities pledged by CDFI members may vary according to the effective duration of the securities. (See Eligible Securities: Borrowing Capacity Tables: Table III.)

Mortgage Loans and Participations

Eligibility

CDFI members may pledge the following types of loan collateral:

- Residential first mortgages without negative amortization
- Multifamily mortgages
- Commercial mortgages
- Retained participations in residential first mortgages, multifamily and commercial loans (member or member's affiliate must be the servicer of the loan)

CDFI members may not pledge:

- Residential first mortgages with negative amortization
- Residential second mortgages and home equity lines of credit
- Purchased participations

Loan Collateral Pledging and Delivery

Non-depository CDFI members are required to pledge loans under specific identification and to deliver all pledged loan collateral.

Loan Collateral Borrowing Capacity

The maximum borrowing capacities for mortgage loans pledged by non-depository CDFI members are different than for depository members. See Borrowing Capacity Calculation: Real Estate Loans, Table III.

Servicer Requirements

When mortgage collateral is serviced by an affiliate or an entity other than the member, a Servicer Acknowledgement and a copy of the servicing agreement is required prior to the assignment of borrowing capacity.

Updates

Updates to the Collateral Guide are posted on the Bank's member portal in the Announcements section.