

## **Pledging & Underwriting Guidelines (Commercial Real Estate and Multifamily Loan Collateral)**

### **I. Collateral Eligibility:**

The Federal Home Loan Bank of Boston's ("the Bank") Products and Solutions Guide defines Multifamily and Commercial Real Estate Loan Collateral as follows:

- Fully disbursed whole first mortgages secured by residential property of 5 or more units. (Multifamily loans)
- Fully disbursed whole first mortgages secured by Commercial Real Estate loans.

These loans must comply with the following provisions:

- In accordance with Appendix A of the Bank's Products and Solutions Guide, loans secured by commercial real estate (CRE) are eligible under the Category 5, Other Real-Estate-Related Collateral (ORERC) section and are subject to a cap or limit. Members may pledge ORERC to the Bank in a discounted amount up to two times their GAAP capital.
- These loans must be owned by the member free and clear of all other liens and encumbrances, including tax liens, and cannot have been in default within the most recent 12-month period.
- Loans made to directors, officers, employees, attorneys, or agents of the member institution or the FHLB Boston are not eligible for pledging to the Bank, per regulation.
- Loans with LTV ratios over 90 percent are not eligible to pledge to the Bank.
- The Debt Service Coverage Ratio (DSCR) for loans typically should be greater than 1.20X. Anything less than 1.20X will be reviewed on a case-by-case basis. Loans with a DSCR below 1.00X are not eligible to pledge to the Bank.
- This collateral must be classified by the member and its primary regulator as "minimal risk". That is, the collateral must not be classified by the member or its regulator as substandard, doubtful, or loss.

This collateral is subject to review and acceptance by the Bank before a member can receive credit. The review of the loan files will typically take place on the member's premises. The loan reviews are conducted to ensure that the credit underwriting and supporting documentation for these loans meet the Bank's collateral eligibility guidelines. If accepted, at a minimum, these loans must be individually listed with the Bank to receive credit. If the member is in delivery collateral status due to its weak financial condition or for other reasons, the member must deliver this collateral to the Bank.

The Bank may, in its sole discretion, refuse certain types of high-risk real estate loans to be pledged as collateral. High-risk property types are those that are management intensive, single

purpose, have high vacancy or limited improvements. These conditions can cause an extended marketing period in case of liquidation. Also, the Bank has identified mortgage or collateral types that represent excessive credit or salability risk and are therefore ineligible. These mortgage and collateral types have been identified in the Excluded Commercial Real Estate Property Types document that can be found on the Bank's website at:

[http://www.fhlbboston.com/downloads/members/collateral/excluded\\_cre\\_types.pdf](http://www.fhlbboston.com/downloads/members/collateral/excluded_cre_types.pdf)

## **II. Listing of Loan Information:**

The Bank has established a minimum number of fields of loan information that the member must provide the Bank in order to pledge these loans as collateral. Prior to the visit, the member is required to provide the Bank with a template that lists all the loans to be considered as qualified collateral. This loan file template must be completed according to the Bank's collateral system's required fields of data. In order for the accepted loans to be uploaded to the collateral system, this template must be detailed exactly to specifications. Information provided in this template and loan documentation provided for review during the on-site visit will be used to review the loan.

## **III. On-Site Loan Review/Underwriting:**

The quality of the legal documentation, credit underwriting, and eligibility of commercial real estate and multifamily loans offered as collateral to the Bank is established through the loan review process, which is performed by the Bank's collateral review staff at the member's location. The loan file review includes an analysis of supporting records relating to a borrower's financial strength and credit history and a property inspection, if needed.

Based on the number of loans pledged by the member, it may not be possible for the staff to review each individual loan. In certain cases, a sample of loans may be selected for review. As part of the loan file review, at a minimum, the following files and source documents are typically reviewed:

Legal Documentation: The collateral review staff validates the ownership and existence of the pledged mortgage collateral in order to establish and assess the Bank's ability to perfect a security interest in the mortgage collateral. The critical legal documents are the original note, mortgage and deed of trust, and title insurance policy, etc.

Loan Credit Files: The collateral review staff verifies that the loan files contain all the necessary loan documents and related reports such as loan payment history, tax and hazard insurance records, appraisal, title insurance policy, verifications, credit reports, and loan application.

Loan Underwriting: Includes a review of supporting records relating to a borrower's financial strength and credit history, and of the secured property's (ies') ability to generate adequate cash-flow to service the debt. Also includes a review of any other relevant documentation in the loan file.

Original Appraisal Report and Property Analysis: The appraisal is reviewed to confirm the type of property, that the value conclusion is reasonable given all of the factors in the appraisal, and that it complies with proper industry practices. Documentation in the loan file should support a conclusion that the real estate has a readily ascertainable value, including photos of the property.

Environmental Site Assessment Report: The collateral review staff will review the Environmental Site Assessment report that is conducted by a specialized engineering or consulting firm in order to obtain a reasonable perspective on a property's potential environmental problems.

Engineering Documentation: The collateral staff may review the engineering documentation to ensure that the project has been completed per the plans and specifications if needed.

Payment History: For each loan, to verify that no payment has been due more than 45 days beyond the due date within the most recent 12-month period.

Physical Inspection of Properties: An on-site property inspection may be conducted to ensure that the property pledged as collateral actually exists, the condition of the property does not adversely affect marketability, and the appraisal report adequately describes the premises and demonstrates a well supported value estimate. These inspections will typically be performed, as needed, on certain properties or on a representative sample of properties securing loans pledged by the member.

#### **IV. Accepted Loans**

Based upon the results of the review, the Bank will assign a market value to the loans accepted as qualified collateral. The market value placed on the collateral will be based on the Bank's analysis and current policies and procedures, review of the loan file, and the inspection of the property. Members are required to segregate and label as "Collateral for the Federal Home Loan Bank of Boston," all mortgage loans accepted and listed with the Bank.

##### a) Collateral Valuation

Members can receive a collateral value on conventional multifamily loan collateral of up to 73% of the lower of book or market value of the loans, based on the valuation of each member's specifically pledged portfolio.

Members can receive a collateral value on Commercial Real Estate loans of up to 65% of the lower of book or market value of the loans, based on the valuation of each Member's specifically pledged portfolio.

The market values for these loans are updated quarterly using an outside vendor.

##### b) Update of Loan Information

Members are required to submit a quarterly update of the listing of mortgages pledged as qualified collateral with the Bank.

c) Release of Mortgage Collateral

Members are required to maintain at all times an amount of qualified collateral that satisfies the collateral maintenance level established by the Bank. Members may not use, commingle, encumber, or dispose of mortgage collateral that has been specifically listed with the Bank without the express written consent of the Bank.

If the value of a member's collateral declines because of market depreciation, loan amortization, or loan payoffs, the Bank may, at its discretion, require the member to substitute qualified collateral that is acceptable to the Bank to offset the decline in the value of the collateral held by the Bank.

d) Fees

In accordance with the Bank's Agreement for Advances, Collateral Pledge and Security Agreement, FHFA regulation, and the Bank's Products and Solutions Guide, members agree to permit Bank personnel to make periodic on-site verifications of collateral pledged to secure advances. All fees and costs incurred by the Bank in connection with its collateral requirements will be charged to the member.

As part of these costs, the member will be charged for all out-of-pocket expenses incurred by the Bank that are related to the on-site loan file review. In order to perform the property inspection process in a more timely and cost effective manner, the Bank may use an outside nationwide appraisal firm to conduct the property inspections. Members will be charged for the cost of the property inspections (approximately \$100 per property).

After the initial on-site loan review, on an ongoing basis, the Bank will typically perform periodic follow-up collateral verifications of the loans accepted as collateral to ensure continued compliance with the Bank's policies and procedures and collateral eligibility requirements.

## **Attachment A**

### Pledge of Commercial Real Estate Loans Process

- Step 1. The Bank receives a request from the member that it intends to pledge new or additional commercial real estate loan collateral.
- Step 2. The collateral staff refers the member to the Bank's website for the Bank's policy and procedures for pledging CRE loans and the CRE loan file template.  
  
[http://www.fhlbboston.com/members/forms\\_and\\_apps/05\\_05\\_02\\_collateral\\_forms.jsp](http://www.fhlbboston.com/members/forms_and_apps/05_05_02_collateral_forms.jsp)
- Step 3. The member must deliver to the Bank the template that lists all the loans to be considered as qualified collateral. This loan file template must be completed according to the Bank's collateral system's required fields of data in order for the accepted loans to be uploaded to the collateral system.
- Step 4. The collateral staff reviews the loan file template that contains the loan level data to ensure that it is complete and formatted exactly to the Bank's specification. This template must be detailed exactly to the Bank's specification before an on-site collateral review can be scheduled.
- Step 5. Upon approval of the loan file template, the Commercial Real Estate Analyst contacts the member to schedule the on-site collateral review. The review of the loan files will typically take place on the member's premises.
- Step 6. Based upon the results of the review, an on-site property inspection may be conducted for certain properties or on a representative sample of properties securing loans pledged as collateral.
- Step 7. Upon completion of the property inspections, the accepted loans are uploaded to the collateral system and included in the member's borrowing capacity at the applicable discounted collateral values.

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