

Detailed Pledging Guidelines

Home Equity Lines-of Credit (HELOCs) and Other Second Mortgages

The Federal Home Loan Bank of Boston's ("the Bank") policies and procedures for pledging Home Equity Lines of Credit (HELOCs) and second mortgages are as follows:

I. Collateral Eligibility:

The Bank of Boston accepts HELOCs and second mortgages as eligible collateral under the following provisions:

- In accordance with Appendix A of the Bank's Products Policy, HELOCs and second mortgages are eligible under the Category 5, Other Real-Estate-Related Collateral section and are subject to a haircut of 50% of the book value. This section allows members to pledge "other real-estate-related collateral to the Bank in a discounted amount equal to two times their GAAP capital.
- HELOCs must be secured by a first or second lien on 1- to 4-family primary owner occupied residential property.
- HELOCs are subject to individual review and acceptance by the Bank. 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.
- Members in blanket and listing collateral status will be required to list HELOC collateral. Members in delivery collateral status will be required to list and deliver the loans to the Bank.
- A HELOC must have a combined loan-to-value ratio (first and second mortgage) no greater than 80% to be eligible as collateral (maximum credit line shall be used in determining combined loan-to-value on HELOCs). However, if the member's maximum CLTV is more conservative (90% for example), the Bank will defer to member's policy and will not accept any exceptions to the member's internal CLTV policy.
- HELOCs must comply with the Bank's anti-predatory lending policy ("APL policy") that requires all loans pledged as collateral to comply with all applicable federal, state, and local laws, including APL laws.
- HELOCs pledged by a member must have a relatively stable outstanding balance. As required by the Products Policy and the Bank's Agreement for Advances, Collateral Pledge and Security Agreement, members have an affirmative responsibility to maintain sufficient qualified collateral to secure outstanding advances at all times.

- The Collateral Department periodically monitors members' outstanding collateral balances. This is done through a number of methods, including qualified collateral reports (QCRs), collateral listings, and on-site collateral reviews. If a particular member's HELOC balance shows volatility, the Credit Department may restrict that member's ability to pledge HELOC collateral to the amount of the relatively stable base balance of the HELOC portfolio. The Credit Department also may increase the collateral haircut on HELOCs pledged by members that have demonstrated significant volatility in their outstanding balances or other qualitative issues.
- HELOCs cannot have been in default or delinquent more than 45 days within the most recent 12-month period.
- Loans made to directors, officers, employees, attorneys, or agents of the member institution or the Bank are not eligible for pledging to the Bank, per Federal Housing Finance Board (FHFB) regulation.
- 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.

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 the HELOCs as qualified 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 to specification.

In addition, prior to the visit, the member must provide its policies and procedures for underwriting and servicing HELOCs, and performance information (totals, growth, delinquencies, etc.) on its HELOC portfolio for the previous 3 years.

III. On-Site Loan Review:

The quality of the legal documentation, and credit underwriting of the HELOCs offered as collateral to the Bank is established through the loan review process, which is typically performed by the collateral staff at the member's location. The loan review also assesses the accuracy of the loan information contained on the loan file template. The loan file review includes an analysis of the credit and legal files for each loan to determine the eligibility of the collateral.

Legal Documentation: Bank staff validates the ownership and existence of the pledged mortgage collateral in order to determine the Bank's ability to perfect a security interest in the mortgage collateral. The review determines if the member has perfected all ownership rights to the debt instruments, and that the critical legal documents exist and are accessible to the Bank. The

critical legal documents that must be made available are the original note(s), mortgage(s), and certificate of title or title insurance policy.

Loan Credit Files: Documentation in the loan file should support a conclusion that the real estate has a readily ascertainable value. The loan file must include documentation evidencing the balance of the first mortgage (if the HELOC is a second mortgage) at the time of origination of the HELOC. A Certified Appraisal is the preferred source for an opinion of value. However, the valuation method can be an Appraisal, Broker Opinion of Value, Tax Assessment, Automated Valuation Method (AVM), or Officer Opinion of Value with photograph of property. Also, pursuant to The Home Equity Consumer Protection Act, evidence of member compliance with required regulatory disclosures must be present in the file for the loan to be considered eligible. The Bank staff will review supporting records relating to a borrower's financial strength and credit history, and any other relevant documentation in the loan file correspondence.

Payment History: The payment history must be presented for each loan reviewed to verify that no payment was due more than 45 days beyond the due date within the most recent 12-month period.

Physical inspection of Properties: An on-site property review 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 on a representative sample of properties securing loans pledged by a member. (The cost of the property inspections are noted below under the Fees section of Part IV)

IV. Accepted HELOCs

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

The value placed on these loans typically will be 50% of the book value of the loan.

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. (Update may be increased to monthly at the Bank’s discretion.)

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 Products Policy, members agree to permit Bank personnel to make periodic on-site verifications of collateral pledged. All "out-of-pocket" fees and costs incurred by the Bank in connection with its collateral requirements will be charged to the member.

Out-of-pocket expenses are fees incurred by the Bank that are related to the on-site loan file review. In order to perform the on-site property inspection process in a more timely and cost effective manner, the Bank uses an outside nationwide appraisal firm to conduct the property inspections, which are typically \$100 per property.

Attachment A

Pledge Process HELOCs and Second Mortgages

- Step 1. Bank receives a request from the member that it intends to pledge HELOCs.
- Step 2. Bank performs a calculation to determine the amount of HELOCs and second mortgages that a member may pledge under the Category 5, Other Real-Estate-Related Collateral section. This section allows members to pledge “other real-estate-related collateral to the Bank in a discounted amount equal to two times their GAAP capital.
- Step 3. The collateral staff sends the Bank’s policy and procedures for pledging HELOCs and the loan file template to the member. In addition, collateral staff requests the member’s policies and procedures for underwriting and servicing HELOCs, and performance information (totals, growth, delinquencies, etc.) on its HELOC portfolio for the previous 3 years.
- Step 4. The member must deliver to the Bank the policies and procedures, performance information, and 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 5. The collateral staff reviews the policies and procedures, performance information and the loan file template that contains the loan level data to ensure that it is acceptable and complete, and formatted to the Bank’s specifications. This template must be detailed to the Bank’s specifications before an on-site collateral review can be scheduled.
- Step 6. Upon approval of the loan file template, the Bank 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 7. Based upon the results of the review, an on-site property review is conducted on a representative sample of properties securing loans pledged as collateral.
- Step 8. 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.