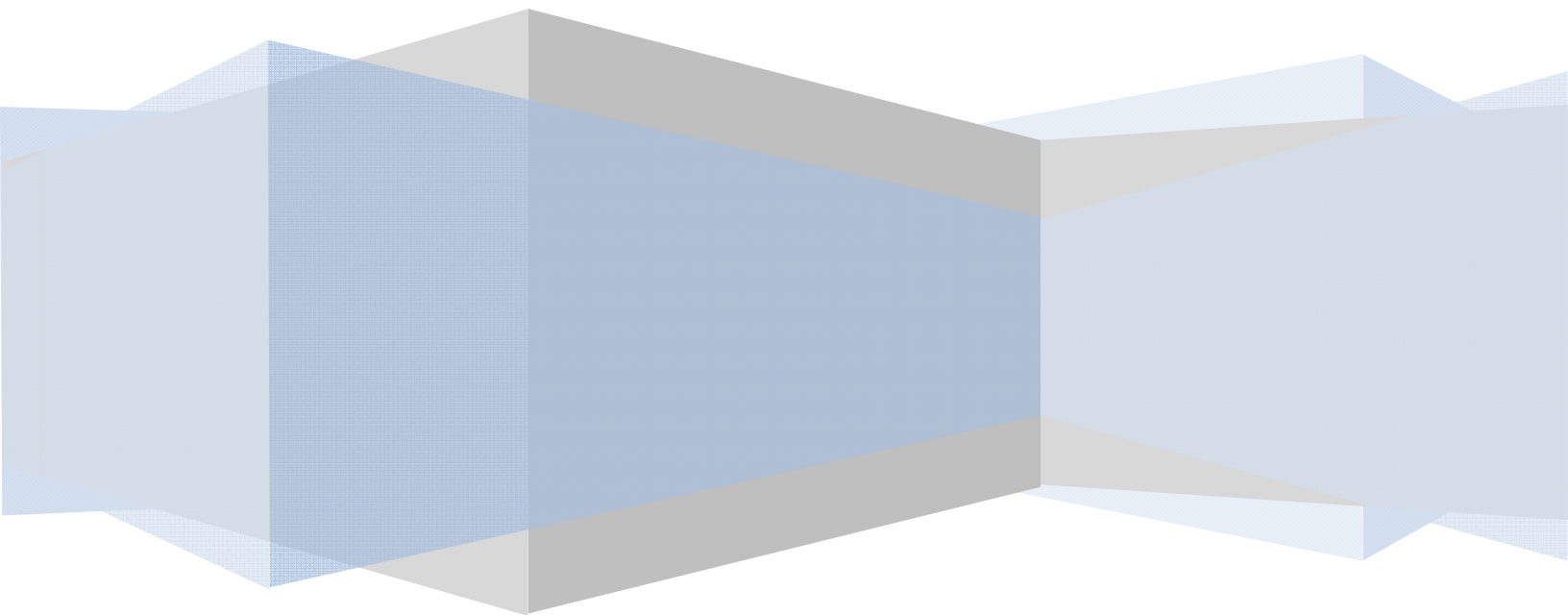


Federal Reserve Bank of Atlanta

Borrower-In-Custody Program

Overview & Instructions



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Introduction

The Borrower-In-Custody (BIC) of collateral arrangement allows collateral to be maintained at the pledging institution rather than being delivered to the Federal Reserve Bank (FRB) or a third-party custodian. Typically, BIC arrangements are used to facilitate pledging large volumes of loans evidenced by instruments. BIC arrangements are only permitted for financially sound institutions that demonstrate satisfactory internal control, safekeeping and records retention standards.

Assets held in a BIC arrangement may be pledged to the FRB for discount window or payment system risk (PSR) purposes; however, collateral pledged will service both purposes. In some situations, residential mortgage loans, commercial loans, and agricultural loans may be pledged to the U.S. Treasury for Treasury Tax and Loan (TT&L) purposes under the Treasury Department's Special Direct Investment (SDI) program. In this instance, the FRB will act as agent for the Treasury.

The purpose of the BIC arrangement is to provide flexibility to depository institutions so they may increase their pool of pledged collateral while avoiding the inconvenience and cost of transporting loans and supporting documentation to the FRB or another custodian.

General Qualifications

To participate in a BIC arrangement, your institution must meet the following qualifications:

- Be in acceptable financial condition as determined by the FRB.
- Have no substantive supervisory actions proposed or in place.
- Be at least adequately capitalized.
- Have adequate internal controls in place, particularly in the area of loan administration and processing as determined by the FRB.

Approval for the program is contingent upon our evaluation of your institution, responses to the BIC collateral certification, on-site inspections of loan documents, and controls over the proposed collateral.

Legal Documents to Execute

Certain legal agreements are required to establish access to the FRB's discount window. These agreements are found in Federal Reserve Operating Circular No. 10, "Lending" located at <http://www.frbdiscountwindow.org/> under Agreements. Please contact an analyst if you have questions completing any of these documents. These must be in place before an institution may borrow from the discount window, and preferably be in place before implementing the BIC process or at least be in conjunction with the BIC set-up.

It is the pledging institution's responsibility to notify the FRB of any changes requiring the submission of revised legal agreements.

Operating Circular No. 10 Documents

All institutions interested in access to the Federal Reserve Discount Window must complete the Operating Circular No. 10 (OC-10) agreements listed below.

Form Letter of Agreement

A letter binding your institution to the provisions of Operating Circular No. 10. The letter of agreement should be executed on your institution's letterhead and must be signed by an individual listed on the Form of Authorizing Resolutions for Borrowers (Authorizing Resolutions). If two individuals are required by the Authorizing Resolutions for Borrowers to execute documents, two authorized individuals must sign the letter.

Form of Certificate

A document certifying the official name, jurisdiction, and organizational number (if applicable) of your institution. Please reference the footnotes for those authorized to sign this document. FRB Atlanta will allow the Secretary of the Board of Directors to sign in lieu of legal counsel. A total of three signatures are required if two authorized officers are required by the Authorizing Resolution for Borrowers.

Form of Authorizing Resolutions for Borrowers

This document certifies that your institution's board of directors has provided authority to borrow from the FRB. It also identifies, by title, those officers authorized to sign in the Official OC-10 Authorization List described below. Please follow the instructions in footnote 3 of the Authorizing Resolutions for Borrowers when completing the signature block on page 2.

Official OC-10 Authorization List

A list of names, titles, telephone numbers, email addresses, and signatures of those individuals with authority to borrow and/or pledge assets to the FRB. It must be signed by authorized officer(s) as specified in Item 2 of the Authorizing Resolution for Borrowers and your institution's Secretary of the Board. Use two pages if necessary. This document must also be notarized.

Form of Letter of Agreement to Correspondent Credit and Payment Agreement (if applicable)

The Letter of Agreement to Correspondent Credit and Payment Agreement should be completed only if your institution desires discount window activity to settle at a correspondent. This document is a letter binding your institution and your correspondent to the provisions of Operating Circular No. 10. Page one of the letter of agreement should be prepared on your institution's letterhead and must be signed by individuals listed on the Form of Authorizing Resolutions for Borrowers (Authorizing Resolutions). If two individuals are required by the Authorizing Resolutions to execute documents, two authorized individuals must sign the letter. The second page of the document must be completed and signed by the correspondent institution.

Additional BIC Program Documents

The following additional documents are required for the Vault Loan Program:

Assignment

The Assignment is a collateral document used to perfect the FRB's interest in the collateral being pledged.

Electronic Pledge Authorization

The Electronic Pledge Authorization is a form indicating who is eligible from your institution to submit the Collateral Pledge Form and Collateral Schedule electronically to the FRB. All individuals notated on this form must be assigned as eligible to pledge on the OC-10 Authorization Form.

UCC Filing: Perfection of Security Interest

The FRB's policy is to perfect its security interest in collateral pledged for the discount window, payment system risk and TT&L programs whenever possible. To ensure that the FRB will continue to have a first priority security interest in pledged collateral, the FRB completes a UCC-1 financing statement as well as a UCC-11 search to ensure no other entities hold a lien over the same collateral. If a conflicting UCC-1 filing is discovered, the FRB will seek to secure subordination agreements from the lien holder. The FRB cannot assign a collateral value until a completed UCC-1 financing statement is received for your depository institution. The UCC-1 filing and search charges will be absorbed by FRB Atlanta. More information can be obtained by contacting an analyst.

Your institution should also be aware that if you are a member of a Federal Home Loan Bank (FHLB) or a corporate credit union, a blanket lien may already be filed your institution's assets. In most instances, we ask that you contact your lien-holder to discuss with them the types of assets you are planning to pledge to the FRB versus what is already pledged. The collateral and legal staffs at the FHLB have very specific instructions and actions they take as a result of their Advance Agreement in force with your institution. A Comfort/Release Letter of Subordination Agreement may be needed as a result and will need to be addressed by both the appropriate FHLB and FRB. In some cases, the FHLB has documents out on their web site addressing this issue.

Loan Eligibility Requirements

The loans pledged to the FRB must be owned by your financial institution. You must furnish the FRB with sample loan documentation for each type of asset your institution would like to pledge. The FRB will use this information to determine whether the BIC arrangement would be appropriate or whether other programs may be more suitable.

Eligible Loan Types

Loans must be in readily negotiable, transferable, or assignable form and not subject to any adverse legal, environmental, or other action.

Discount Window/Payments System Risk

- One- to four- family residential mortgage loans
- Consumer loans (including home equity loans)
- Commercial loans
- Commercial real estate loans
- Agricultural loans
- US Agency Guaranteed loans
- Construction loans
- Raw land loans
- Private banking loans
- Student loans
- Participation loans: Loans originated by another institution, such as an acquired or affiliated company, and the acquired by or sold to your organization must have proper endorsements and/or assignments to your financial institution. Only those portions of the participation loans that are owned by your institution are able to be pledged as collateral to the FRB. Loans that require permission of the originating institution for pledge or transfer requires proof of such permission.

Treasury Tax and Loan (TT&L)

See the Bureau of Public Debt website for a complete list of eligible TT&L collateral for the various types of TT&L programs at

<http://www.treasurydirect.gov/instit/statreg/collateral/collateral.htm>.

Ineligible Loan Types

- Participation loans without original documentation or without proper permission to pledge or transfer, if required.
- Loans with transfer or pledge restriction that haven't been addressed
- Off-balance sheet commitments (e.g., commercial letters of credit, standby letters of credit, loan commitments, futures/forward/standby contracts for securities, foreign exchange commitments, swaps)
- Insider loans (loans to a director, officer or bank agent)¹
- Loans collateralized by stock of any depository institution or affiliate
- Loans to any depository institution or affiliate
- Loans secured by CDs issued by another depository institution
- Loans issued to an affiliated employee stock ownership plan (ESOP) or secured by stock held by an affiliated ESOP
- Loans already pledged under a specific or blanket lien (e.g., held by the FHLB or corporate credit union) unless expressly subordinated to the FRB

¹ Bank employee loans are acceptable.

- Loans not denominated in U.S. dollars to foreign or domestic entities and loans that are not domiciled in the United States (i.e., no foreign obligor loans)
- Loans classified as watch; other loans especially mentioned; substandard, doubtful, or loss; or otherwise identified for management's special attention
- Loans in which the origination or renewal process has not been completed

Additional BIC Program Restrictions on Collateral

The following loans are not acceptable as collateral under the Vault Loan Program:

- Commercial, commercial real estate, and agricultural loans more than 30 days delinquent
- Residential mortgage and consumer loans more than 60 days delinquent
- Loans on nonaccrual status or loans receiving adverse comment from your institution's loan review function
- Loans subject to classification by regulators
- Any other loan in an impaired status (i.e., bankruptcy², etc.)

Credit Quality Standards

Loans must meet credit quality standards established by the FRB. The FRB will determine whether individual assets meet those standards by one of the following three methods. Any loans that fall below acceptable credit-quality standards or otherwise become unacceptable must be immediately withdrawn from the pledge by your institution.

1. Validating and relying on the DI's internal risk rating system

If determined to be acceptable, the FRB can rely on the internal risk rating assigned by the pledged institution to determine the acceptability of the pledged loans. Your institution must meet the following criteria:

- Meet all BIC arrangement qualifications as described above.
- Have acceptable asset quality and overall acceptable financial condition as determined by the FRB.
- Have internal risk ratings approved by the FRB.

The FRB must determine whether your institution's loan rating system is acceptable. To begin the process, you must furnish a copy of your institution's loan review policy, including a description of the ratings assigned to loans of various credit qualities, to the FRB. The FRB will use these descriptions to map your institution's internal risk ratings to its own credit-quality measures.

² Loans pledged to the BIC program may not be in bankruptcy or otherwise show impaired capacity. However, loans in which the borrower had previously declared bankruptcy but later reaffirmed the loans, with a written reaffirmation agreement, may be pledged if the borrower has paid as agreed for at least six months. The loans must also meet all other BIC program eligibility requirements.

In order to assess the integrity of your loan rating system, the FRB may rely on examination reports and/or discussions with your institution's regulator. The FRB may validate your institution's loan rating system by reviewing a sample of loans and comparing credit quality to each loan's assigned internal risk rating.

The BIC acceptance letter will identify those internal risk ratings that are acceptable to pledge provided that your institution's internal risk rating system is deemed acceptable and your institution meets all other criteria under the Vault Loan Program. Your internal risk ratings will be mapped to FRB credit-quality standards used in valuing collateral. After the initial acceptance of your institution's internal risk ratings, it is your responsibility to provide updated versions of your internal risk ratings, as necessary.

2. Relying on reviews of individual assets considered by examiners to be "pass" credits

3. Performing its own credit analysis, using financial statements and other information provided by the pledging institution

This method is used only in those cases where an institution's internal risk rating system cannot be validated as acceptable and whose notes selected for pledging have not been reviewed by examiners and given a "pass."

Custody and Control Standards

Assets pledged under a BIC arrangement must be clearly indicated by labeling the assets as pledge to the Federal Reserve Bank of Atlanta (FRB). This may be done by one of three ways as noted below:

- Placing notations on the electronic trial loan ledgers and balance sheets identifying loans that are pledge to the FRB.
- Physically segregating the loans.
- Individually stamping each loan file to indicate that the loan is pledged to the FRB.

These procedures are designed to ensure that other departments within your institution are aware that the assets are pledged as collateral and to ensure that the assets themselves will not be sold on the secondary market while pledged to the FRB. Regardless of the identification method chosen, a sign indicating that "some loans are pledged to the Federal Reserve Bank of Atlanta" must be posted in the collateral storage area. Collateral must also be adequately secured controlled. Original promissory notes and other legal documents should be stored in a fireproof vault or another secure enclosure with limited access.

Imaged Loan Documents

If you institution currently images all loans, please let us know. Further, if original notes, security agreements or mortgage deeds (or deeds of trust) are not being kept as a result of the image process, please obtain a legal opinion that indicates a comprehensive review was done in all of the stats in which an institution has branches or homes offices and demonstrates that electronic documentation is

acceptable and allowed in the states in which the institution operates. In addition, if original loan documents are stored somewhere other than your primary location or in a third party warehouse arrangement; please provide that information as well.

Independent Audit Review

The FRB requires a pledging institution to provide continual independent audits of assets pledged to the FRB. This independent audit may be performed by your institution's internal audit function provided that function reports outside the normal management chain. The auditors should include a review of compliance with all BIC guidelines as part of their regular audit of loan operations areas. A complete audit report of these areas—including any findings, management's responses and corrective action plans—should be forwarded to the FRB for review. Please contact us if you have any concerns or questions on this issue.

Inspections

At its discretion, the FRB may perform an initial inspection prior to approving a BIC arrangement. The initial inspection would include a review of the assets your institution anticipates pledging as well as an assessment of the internal controls over those assets. In addition, once a BIC arrangement is formalized, the FRB may periodically review the loans pledged as well as operating routines and controls to ensure compliance with all BIC arrangement guidelines.

Periodic Reporting

Unless the FRB requests more frequent updates, your institution will be expected to provide a Collateral Pledge Form and the following information at the time the pledge begins as well as by the 10th of each month thereafter in the form of a collateral schedule:

- Account number
- Borrower name
- Current balance
- Original balance
- Days past due
- Origination date (in short date form)
- Maturity date (in short date form)
- Loan internal risk rating code
- Interest rate
- Next payment date (in short date form)

The collateral schedule should be separated in different excel spreadsheets by pool (e.g., agricultural). Collateral schedules and pledge forms can be submitted via email (secure email is available, please call for details).

Examples of the collateral schedule and pledge form are posted on the FRB Atlanta's BIC information page where this booklet is also located. It is also available from the FRB in electronic form.

If the FRB does not receive updated information in a timely fashion, the collateral value of the pledged assets may be reduced to zero.

Ongoing Maintenance

Documents

The FRB will occasionally ask your institution to submit updated versions of the following documents:

- BIC collateral certification questionnaire (now required annually)
- Internal risk rating code documents
- OC-10 legal agreements

Your institution will be contacted by an analyst if any of these documents need to be submitted. However, if any changes are made to any of these documents, please submit them to the FRB.

Additional Reporting for Large Fluctuations in Collateral Values

Whenever the aggregate value of collateral underlying the pledge (i.e., outstanding principal balance) decreases by 10 percent or more since the latest periodic update was provided to the FRB, the pledging institution must immediately notify the FRB and provide an updated collateral pledge form and schedule as described in the "Periodic Reporting" section above.

Such a change in value may be caused by partial or full paydowns by obligors as well as by voluntary or required withdrawals of collateral from the pledge.

Acceptance into the BIC Program

Upon receipt of the required documents, your institution will be contacted by phone or email if additional information is required. If approved, your institution will receive a letter from FRB Atlanta identifying specific requirements of your BIC arrangement. Please note that the FRB may amend collateral requirements or terminate your institution's participation in the Vault Loan Program at any time.

Required Documents

All documents references above and any additional information on participations in the BIC Program may be obtained from the discount window website at <http://www.frbdiscountwindow.org>. Click "Select Your FRB" → "Atlanta" → "Borrower-In-Custody Program".

For your convenience, below is a BIC checklist your institution can use to ensure you submit all required documents for the BIC program to the FRB.

Contacts

Questions about establishing a BIC arrangement should be directed to a collateral analyst at (888) 500-7390.

BIC Application Checklist

Your institution must do the following to be considered for participation in the BIC program:

- Complete the necessary OC-10 legal agreements.
- Complete the appropriate BIC collateral certification(s).
- Furnish a copy of sample loan documents (promissory note) for each type of asset your institution would like to pledge.
- Provide a copy of each type of purchased participation certificate/agreement, if applicable.
- Provide a copy of your most recent audit review (internal or external) of relevant loan operations areas.
- Provide a preliminary collateral schedule of loans that your institution would like to pledge as collateral along with a Collateral Revaluation Pledge Form.
- Furnish a copy of your internal risk rating system, including a description of what qualities constitute each risk rating, if applicable.
- Execute an Assignment form, which is posted on FRB Atlanta's BIC information page.
- Execute an Electronic Pledge Authorization Letter, which is posted on FRB Atlanta's BIC information page.
- Note that if your institution has pledged loans to the Federal Home Loan Bank or a corporate credit union that has a blanket lien in place, you will need to request a comfort release letter or subordination agreement in favor of the Federal Reserve Bank of Atlanta.

Submitting Documents

All documents can be sent to the following address:

Credit & Risk Management Department
Federal Reserve Bank of Atlanta
1000 Peachtree Street, N.E.
Atlanta, GA 30309-4470

Correspondence sent via courier should be directed to the following address:

Credit & Risk Management Department
Federal Reserve Bank of Atlanta
2301 Defoors Hills Road, N.W.
Atlanta, GA 303018-2207