

FEDERAL RESERVE BANK OF SAN FRANCISCO

BORROWER-IN-CUSTODY GUIDELINES

**CREDIT AND RISK MANAGEMENT DEPARTMENT
101 MARKET STREET - MAILSTOP 830
SAN FRANCISCO, CA 94105**

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I INTRODUCTION

Collateral held in a Borrower In Custody (BIC) arrangement may be used to secured advances and/or credit for the discount window, Payment System Risk (PSR) or to the Treasury, Tax, and Loan (TT&L) program. BIC arrangements allow healthy depository institutions to pledge **loans** (including but not limited to commercial real estate, commercial loans, one-to-four family real estate mortgage loans, consumer loans, student loans) as collateral to the Federal Reserve. Custody and servicing of the loans are maintained at the participating depository institution thus avoiding the need to submit loan documentation directly to the Federal Reserve.

A depository institution obtaining discount window credit must pledge acceptable collateral in an amount sufficient to secure an advance and accrued interest. To assure that sufficient collateral is available for ongoing programs such as the Seasonal Credit Program or for contingency situations, *institutions should maintain a pre-determined amount of collateral pledged* at the Reserve Bank.

II APPLICATION PROCESS

PREREQUISITES - BIC arrangements are available only to institutions that have completed the lending documents (Letter of Agreement, Borrowing Resolution, Board of Directors minutes, Signature Card) for Operating Circular 10 (Lending) and/or are participating in the United States Treasury Department TT&L Program.

PRELIMINARY - Submit a completed *APPLICATION FOR BORROWER IN CUSTODY (BIC) ARRANGEMENT*. The application is available at our website at www.frbdiscountwindow.org, Select "Contacts and Resources > San Francisco 12th District"

Once an application for a BIC arrangement is received, an evaluation of your institution's eligibility is initiated. At a minimum, the application is evaluated based on the financial condition and risk controls of the institution:

- CAMELS composite rating of "1" or "2" (Composite ratings of "3" are generally acceptable)
- "Adequately" or "Well" capitalized as evidenced by most recent capital ratios
- FBO and corresponding branches are in satisfactory condition
- Asset quality is satisfactory
- Management oversight of and controls including review / rating system deemed acceptable

III APPROVAL

The Credit and Risk Management department of the Federal Reserve Bank provides written response to a BIC application in 10 business days. Acceptance is subject to conditions set forth and may also include the following required documents:

- Letter of Agreement for Borrower In Custody - the letter must be completed on the applying institution's bank letterhead, see Exhibit 1 herein attached or page 32 of Operating Circular 10

- Most recent internal review ratings, associated definitions, and credit underwriting criteria for applicable pledge loans (e.g. Credit Policy Manual).
- Audit Certification – Attest that collateral is acceptable for pledging in accordance with submitted responses to Application for Borrower In Custody (BIC) Arrangement and herein BIC Guidelines. See Attachment 2
- Letter of Agreement Third-Party Custodian – required for institutions when pledged loans are held by a 3rd party. Third party may also be defined as your subsidiary or an affiliate. Two letters are generally required; one for the participating institution to designate a third party custodian (see Exhibit 2 herein attached or page 27 of Operating Circular 10) and one for the custodian to acknowledge designation (see Exhibit 3 herein attached or page 28 of operating circular 10).
- Power of Attorney – generally required for all participating institutions. This documentation enables the Federal Reserve Bank to act on the institution's behalf to negotiate the collateral and is consistent with the Power of Attorney granted in Operating Circular 10. See Attachment 3.
- UCC-1 Financing Statement – The Federal Reserve Bank will file a UCC-1 Financing Statement in order to perfect to a security interest in the pledged collateral. As it is Federal Reserve Bank policy to obtain reimbursement from the pledging institution, institutions will be asked to submit payment to cover UCC filing fees.
- Email BIC Agreement (eBIC) – The agreement authorizes certain individuals at the depository institution to conduct transactions using email systems. Pledges received via email from the designated individuals shall be legally binding. See Attachment 4.

IV COLLATERAL REPORTING

A BIC-1 form and pledge listing is used to pledge loans as collateral under a BIC arrangement. Once required documents are submitted and final approval issued by the Credit and Risk Management department, pledging may begin immediately. The BIC-1 Collateral Transmittal form is provided under separate cover. On a monthly basis, participating depository institutions submit a BIC-1 Collateral Transmittal and updated listing of pledged loans to the Federal Reserve Bank for revaluation. An authorized individual identified on the OC 10 signature card must sign the BIC-1 Collateral Transmittal.

When a new BIC-1 transmittal and collateral listing is received; collateral from the previous listing is released and new collateral is deposited. Newly originated loans may be included on the monthly listing and transmittal. Matured, paid, past due, or loans which are otherwise unacceptable must be removed from the monthly listing and transmittal. The listing of pledged loans includes the obligor number, obligor name, obligor maturity date, outstanding balance, etc. Please see Attachment 1, for additional details.

The outstanding loan balance reported for each loan must represent the institution's interest in the principal balance. Amounts that are unearned, rebate-able, or have been sold (participated out), must be subtracted out.

All pledges must be submitted as an email attachment. Current acceptable formats include text (fixed width), Excel spreadsheet, Access database, and Adobe PDF. See Attachment 1 for specifications.

Ten Percent (10%) Rule

An updated BIC-1 Collateral Transmittal and pledge listing must be submitted if the pledged portfolio value decreases more than 10% in any given reporting period. In this case, accelerating reporting, (in between the regular reporting periods) with a new BIC-1 and detail pledge listing must be emailed to the Reserve Bank.

Release of Collateral

An institution may request release of pledged loans or a pool of specific loans upon written request identifying the loans for release. Alternatively, an institution may submit an updated BIC-1 transmittal and loan listing so that collateral from the previous deposit is released.

V ONGOING COLLATERAL MAINTENANCE

Loans, and any related documents, must remain housed in the location designated in the Application. Removal and relocation without the expressed written approval of the Federal Reserve Bank of San Francisco is prohibited. If collateral is moved to an affiliate, or any other party for custody, advanced written notice is required to ensure the proper legal documentation is executed.

All documents must be appropriately stored (e.g. in a fire-resistant environment with controlled access / security). Ideally, the collateral is maintained in a vault area, where access is restricted to specific individuals and use of files is recorded.

Collateral documents must be sufficient to evidence an extension of credit. For pledged loans, the promissory note and/or associated documents must be maintained at designated locations (an identifiable address).

Primary Legal Documents

At least one of the following loan documents is required, in order of desirability. Depending on circumstances (e.g. complex syndications, participations, and/or acquired loans), other documents may be acceptable. In that regard, please contact the Federal Reserve.

- Original executed promissory note or original participation certificate
- Original credit / loan / participation / syndication agreement (applicable for noteless agreements)
- Copy of credit / loan / participation / syndication agreement (applicable for noteless agreements)

For certain loans (e.g. auto loans) the original Certificate of Title must also be maintained unless prior arrangements have been made. In certain states with electronic titles, this may not be applicable.

Primary Legal Agreements are expected to be maintained consistently at the designated location(s). Unless the Federal Reserve has provided express written approval, their removal from the designated location is prohibited. Written notice from the pledging institution must be provided in advance of removing documents (e.g. to a new location / address). Exceptions include loans removed due to payoff, downgraded to an unacceptable rating, that have matured, or have been determined to be unacceptable (by the Reserve Bank, institution management, internal audit, credit review, or other regulatory agency).

Supporting Documents (copies or images)

Additionally, the location and availability of certain supporting documents are also required. These should be maintained at the site or location designated. However, removal in the normal course of business is acceptable (e.g. servicing, credit review, etc) as long as they are returned after use.

- Deed of trust or mortgage
- Credit / loan / participation / syndication agreement
- Security Agreement
- UCC Filing
- Appraisal
- Title Policy

Credit and Other Documents (copies or images)

Credit and other supporting documents may be maintained at the branch level (with the relationship officer) without necessarily disclosing their whereabouts. However, these documents must be made available upon Federal Reserve request.

- Underwriting analysis and signed approval
- Internal credit review memorandum and / or write-up
- Financial statements and / or tax returns
- Credit Reports
- Environmental Reports
- Evidence of insurance

Collateral Identification

Pledged loans must be clearly identified as collateral for the Federal Reserve Bank of San Francisco. This is accomplished by all of the following:

- Labeling file cabinet(s) which contain the documents
- Posting a highly visible sign in the area where the pledged loans are located, with wording such as "Some or all of these loans are pledged to the Federal Reserve Bank of San Francisco."
- Electronic notation to flag pledged loans on the loan trial system. This notation may consist of a numerical or alpha code.

VI ON-SITE INSPECTION AND ANNUAL REVIEW OF ELIGIBILITY

Within six month of acceptance into the BIC program, there will be an on-site inspection of pledged collateral. Federal Reserve Bank staff will review the premises, inventory pledged loans, and establish that the collateral is clearly and properly identified as pledged to the Federal Reserve Bank of San Francisco. Written notice is provided approximately two weeks prior to the scheduled arrival date.

Following the inspection, findings will be discussed with the official(s) responsible for the collateral and the institution's senior management during an exit meeting. This meeting will cover the results of the inspection,

including any exceptions found, suggestions, and any course of action. Within one month of the review, a letter confirming the results of the review will be sent to the officer(s) responsible for the pledge of the collateral.

Should the review uncover severe breaches of BIC policy, participation in this program may be terminated.

Review of Eligibility

Credit and Risk Management (CRM) staff conducts in-house reviews of the pledging institution to verify annual eligibility for the program. The review includes an analysis of an institution's CAMELS ratings, Prompt Corrective Action Designation, capital levels and ratios, on-site inspection results, and other supplemental information.

In addition, CRM staff may perform on-going periodic on-site inspections of pledged collateral to ensure adherence to policies and requirements. Notification is sent prior to the inspection.

VII AUDIT CERTIFICATION

Subsequent to the initial Audit Certification, all participating institutions must re-certify the BIC arrangement once every 12 months or as requested. In no case, should an audit certification exceed 18 months. See Attachment 2 for Audit Certification

VIII TERMINATION OF THE BIC AGREEMENT

The participating institution may terminate the BIC Agreement by giving written notice of termination. When given by the Federal Reserve Bank of San Francisco, the notice is effective immediately. When notice is given by the participating institution, the notice is effective when received by the Credit and Risk Management department. The rights and liabilities of the parties under the BIC arrangement survive any termination of the BIC arrangement until all Obligations of the Borrower to the Federal Reserve Bank of San Francisco that arose before termination have been satisfied in full in immediately available and finally collected funds.

Termination is not effective until the BIC participant at its expense, delivers to the Bank collateral and any relevant documents, including endorsements, assignments, or powers of attorney, that the Bank requires to secure any outstanding Obligations

IX TYPES OF LOANS INELIGIBLE FOR PLEDGE

- Loans to an affiliate of a financial institution (includes consumer finance companies).
- Loans collateralized by stock of an affiliate.
- Loans issued to an Employee Stock Option Plan (ESOP) or secured by ESOP stock
- Loans already pledged under a specific or blanket lien unless expressly subordinated to the Federal Reserve Bank
- Loans to foreign or domestic entities that are not denominated in U.S. dollars.
- Loans classified by internal/external auditors (i.e. special mention, substandard, doubtful, loss) or by a supervisory agency.
- Consumer loans or one-to-four mortgage loans more than 60 days past due.
- Commercial or Commercial Real Estate loans more than 30 days past due.

- Loans with unresolved concerns regarding hazardous waste contamination.
- Loans that have assignability or transferability restrictions.
- Loans executed by individuals with outstanding judgment, tax liens, bankruptcies or foreclosures.

Foreign Obligor Loans - In general, foreign obligor loans are not accepted as collateral unless a legal opinion is submitted to and deemed satisfactory by the Reserve Bank. Foreign obligor loans are defined as commercial or commercial real estate loans to entities incorporated outside of the U.S. or whose principal place of business or main office is outside of the U.S. For loans that rely on the strength of guarantors, the domicile of the guarantor determines the classification (e.g., loans to U.S. shell companies that are guaranteed by foreign parents should be considered foreign).

X ADDITIONAL INFORMATION AND CONTACTS

Additional information on the BIC arrangement may be obtained from the Federal Reserve Discount Window website at www.frbdiscountwindow.org or by contacting Credit and Risk Management staff at (866) 974-7475 or emailing at sf.crm@sf.frb.org.

Direct written correspondence to the Federal Reserve Bank of San Francisco, Credit and Risk Management Department, 101 Market St., MS 830, San Francisco, CA 94105.

To facilitate adherence to requirements under a BIC arrangement, the Borrower-In-Custody of Collateral Agreement as stated in Operating Circular 10 is attached as Appendix 1.

ATTACHMENT 1

EMAIL BIC LOAN REPORTING REQUIREMENTS AND SPECIFICATION

Below are instructions for preparing a pledge listing/collateral trial in accordance with Email BIC requirements. Two email options are presented, Group Deposit (GD) specifications or Automated Loan Detail (ALD) specifications.

Group Deposit specifications have general reporting requirements and thus require only limited fields of loan detail information for each pledged loan. For BICs submitted according to the Group Deposit specification, the assigned margin will correspond to the lowest margin for the asset type.

Use of the Automated File Detail specification results in more accurate margins being assigned to individually pledged loans. However, the submission must conform precisely to file specifications. When the specifications are fully implemented, this approach also assists in monitoring and compliance with BIC policies.

Please see the margin table (available on the our website at www.frbdiscountwindow.org) for collateral value information for each asset type.

A. GROUP DEPOSIT SPECIFICATIONS

The Group Deposit specification allows the detailed pledge listing to be in most formats, including text (fixed width), Excel spreadsheet, Access database, Adobe PDF, etc. The detail pledge listing should be constructed so that a print out yields a report listing of loans.

I Page Header

1. Institution Name
2. ABA Number
3. Identified as "Loans pledged to the Federal Reserve Bank of San Francisco"
4. Principal Balance As-Of Date

II Report Footer

1. Weighted Average Interest Rate
2. Weighted Average Maturity
3. Total Number of Loans Pledged

4. Total Outstanding Balance

III Loan Detail Record

1. Obligor Number
2. Obligor Name
3. Internal Risk Rating
4. Maturity Date
5. Interest Rate
6. Original Par Amount
7. Current Par Amount (As Amended)
8. Current Value (Outstanding Principal Balance)

Directions for Submitting Group Deposit Loan Detail (Collateral Trials)

Prior to submitting the pledge, please be sure that all required legal documents for a BIC arrangement are in place. For most institutions, this includes 1) Borrower In Custody of Collateral Agreement, Appendix A to Borrower In Custody of Collateral Agreement, Power of Attorney, and eBIC arrangement.

A BIC-1 form must accompany each pledge listing. It is the responsibility of the pledging institution to ensure that it is updated and submitted monthly. When updating the pledge, loans no longer eligible must be removed from the listing while new loans that meet eligibility criteria may be added.

Please email with the attached BIC-1 and the loan detail listing to:

Email To: sf.crm@sf.frb.org

Subject line: <Name of depository institution>-BIC1

Example: Bank of the Community-BIC1

B. AUTOMATED LOAN DETAIL SPECIFICATIONS

Description: On a periodic basis (at least monthly), a text file is received from a depositor containing loans owned by the depositor and held either on site at the depositor's location (BIC) or at a third party custodian.

PLEASE CONTACT THE FEDERAL RESERVE FOR DETAIL SPECIFICATIONS.

ATTACHMENT 2

AUDIT CERTIFICATION FOR BORROWER IN CUSTODY (BIC) ARRANGEMENT

DIRECTIONS: This certification is required within 2 months of an initial BIC pledge. Subsequent recertifications are generally required once every 12 months. This form must be completed by internal audit, external audit, or responsible director.

I CERTIFY THAT I AM IN RECEIPT OF AND HAVE REVIEWED THE BORROWER-IN-CUSTODY GUIDELINES. FURTHER, I ATTEST THAT ALL RELEVANT INTERNAL POLICIES AND PROCEDURES HAVE BEEN REVIEWED AND EXAMINED FOR BORROWER-IN-CUSTODY PROGRAM CONFORMANCE AND CONFIRM THIS INSTITUTION TO BE IN COMPLIANCE.

INSTITUTION NAME: _____

APPLICABLE COLLATERAL LOCATION(S) / ADDRESS(ES) AND LOAN TYPE(S) (Attach as necessary)

AUTHORIZED SIGNATURE: _____

PRINT NAME _____

TITLE _____ **DATE** _____

PLEASE RETURN THIS COMPLETED AND SIGNED CERTIFICATION TO:

CREDIT AND RISK MANAGEMENT
FEDERAL RESERVE BANK OF SAN FRANCISCO
101 MARKET STREET, MAILSTOP 830
SAN FRANCISCO, CA 94105

ATTN: DWCR

ATTACHMENT 3

IRREVOCABLE POWER OF ATTORNEY

_____ ("Institution"), an incorporated depository institution having its principal office at _____, in the City of _____, County of _____, State of _____, appoints the Federal Reserve Bank of San Francisco ("Bank"), with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of Institution, to endorse, assign, transfer, and deliver collateral for obligations as defined under the provisions of Operating Circular No. 10 and/or security for deposits of public moneys under the applicable Department of Treasury regulations to any party, and to take any action deemed necessary or advisable by the Bank to either protect the Bank's interests or exercise its rights under Operating Circular No. 10 or applicable Department of Treasury regulations, including taking any action to perfect or maintain the Bank's security interest (including but not limited to recording an assignment of a mortgage or filing a financing statement). This power of attorney is coupled with an interest and as such is irrevocable and full power of substitution is granted to the assignee or holder.

Institution hereby ratifies any and all action as authorized herein previously taken by its above-named attorney in fact. The rights, powers and authority of the attorney in fact to exercise, perform and cause to be done any and all act whatsoever requisite and necessary by virtue of authority hereof shall remain in full force and effect and are binding upon Institution, its legal representatives, successors and assigns until all obligations of Institution to Bank have been fully satisfied and discharged.

IN WITNESS WHEREOF, Institution has caused its corporate seal to be hereunto affixed and has executed this power of attorney as of the _____ day of _____, _____.

By: _____
Duly Authorized

By: _____
Duly Authorized

Title: _____

Title: _____

STATE OF _____ (CORPORATE SEAL)

COUNTY OF _____

On _____, 20____, before me, _____, personally appeared _____ [Name(s) and Title(s)] personally known

to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies) and that by his/her/their signature(s) on the instruments the person(s), or the entity on behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Notary Public

Print Name

[Affix raised notarial seal]

My Commission Expires:

ATTACHMENT 4 (eBIC Agreement)

DI Letterhead

Date

Federal Reserve Bank of San Francisco
101 Market Street, Mailstop 830
San Francisco, CA 94105

Please accept this letter as notice of the intent of _____ (“DI”) intent to submit loan pledge documentation to the Federal Reserve Bank of San Francisco via e-mail. The following individuals, who are currently authorized by DI to initiate pledging transactions with you, pursuant to [Operating Circular No. 10 and/or Operating Circular No. 9], are hereby authorized to provide this pledging information to you by email.

Name	Title	E-mail Address	Phone Number

DI agrees that any email the Reserve Bank receives at sf.crm@sf.frb.org that appears to be from any of the above listed email addresses (or from any of the authorized email addresses of DI’s third party custodian (“TPC”), if any, forwarding an email from any email address listed above¹) that includes as attachments:

- (i) the BIC-1 and
- (ii) loan detail file meeting the Reserve Bank’s specifications,

shall constitute a pledge of the loan collateral detailed in the file, to the same extent as would submission to the Reserve Bank of non-electronic pledge documents containing the same information. We further agree that any such email and its attachments will be deemed to be a Collateral Schedule within the meaning of Operating Circular No. 10, and will modify or supplement any Collateral Schedule the Reserve Bank received prior to such email.

¹ If the collateral listed in the electronic file is held under a third party custody arrangement, the email that the Reserve Bank receives must either have been sent by the DI to the TPC and then forwarded by the TPC to the Reserve Bank or sent by the TPC to the DI and then forwarded to the Reserve Bank.

DI accepts full responsibility for the successful transmission and receipt of information provided to the Reserve Bank through electronic means and understands that the Reserve Bank is not responsible for any transmission failures or any other problems that prevent successful or timely receipt of the information that we provide through electronic means. DI agrees to indemnify and hold harmless the Reserve Bank for any losses relating to the transmission of this data.

Thank you,

[DI Name]

By: _____

Name:

Title:

APPENDIX 1

From Operating Circular 10

BORROWER-IN-CUSTODY OF COLLATERAL AGREEMENT

1.0 SCOPE

1.1 If the Bank approves, the Borrower may hold Collateral securing Obligations by executing a Letter of Agreement for Borrower-in-Custody (“BIC”) in the form of Exhibit 1 to this Appendix.

1.2 This BIC Agreement supplements the Lending Agreement and the terms of the Lending Agreement are incorporated herein. Capitalized terms in this BIC Agreement have the same meaning as defined in the Circular.

1.3 In the event of a conflict between the other provisions of the Lending Agreement and the provisions of the BIC Agreement, the provisions of the BIC Agreement control.

2.0 STATUS

2.1 The BIC acts as the Bank’s agent in holding Collateral to secure any Obligation and acts in this capacity without any right of compensation from the Bank. Each item of Collateral is deemed to be in the possession of the Bank as though the Collateral had been deposited at the Bank’s premises, and any Collateral the BIC holds is held in trust for the Bank.

3.0 COLLATERAL

3.1 Collateral which may be held by a BIC is generally limited to certain types of loans and certificated securities that will be specified by the Bank.

3.2 The BIC shall provide a Collateral Schedule identifying the items Pledged to the Bank as Collateral and held by the BIC. Each Collateral Schedule shall identify the Collateral in accordance with the Bank’s written instructions. Collateral Schedules must be updated at least monthly (or more frequently at the Bank’s request).

3.3 The BIC shall maintain records sufficient to demonstrate compliance with the Lending Agreement. The BIC shall also furnish such other information with respect to the Collateral as the Bank may reasonably desire from time to time.

3.4 Upon the Bank’s request, the BIC shall at all times segregate Collateral from its own assets or the assets of any other party and shall hold Collateral in such location(s) approved by the Bank. Unless otherwise provided herein, Collateral shall not be removed from such location(s) without the prior written approval of the Bank.

3.5 Collateral shall be prominently identified as Pledged to the Bank and subject exclusively to the Bank’s written instructions. At the Bank’s request, the BIC shall, without delay, prominently and conspicuously affix a legend to items of Collateral indicating that such items are subject to a security interest in favor of the Bank.

3.6 The BIC shall mark its records to show that Collateral has been pledged to the Bank and is subject exclusively to the Bank’s written instructions. Any computer generated list or report containing Collateral must incorporate a legend indicating that Collateral is pledged to the Bank.

- 3.7 The BIC shall follow any other procedures specified in writing by the Bank.
- 3.8 At all times, the BIC bears the risk of loss to the Collateral and shall promptly Pledge replacement Collateral, acceptable to the Bank, of equal or greater value in the event of the destruction, disappearance, theft, or unauthorized release of the Collateral.

4.0 WITHDRAWAL AND SUBSTITUTION OF COLLATERAL

- 4.1 Except as otherwise provided herein, the BIC may withdraw or release Collateral only if specifically authorized by the Bank in writing.
- 4.2 The BIC may withdraw Collateral, or replace Collateral with Collateral that is specifically approved by the Bank, if:
- (a) the BIC provides the Bank with prior written notice of the BIC's intention to withdraw or substitute Collateral and submits a new Collateral Schedule listing all Collateral remaining Pledged to the Bank; and
 - (b) within ten days of receiving the BIC's written notice, the Bank does not object in writing to such withdrawal or substitution. If the Bank so objects, the BIC may only withdraw the Collateral if the Borrower Pledges new Collateral acceptable to the Bank or reduces the amount of any Obligation to an amount satisfactory to the Bank.
- 4.3 Unless otherwise specified by the Bank in writing, the BIC shall promptly withdraw the following Collateral:
- (a) any Collateral that has a payment of principal or interest past due, in whole or in part, for more than 30 days (or 60 days past due for mortgage notes, and other types of consumer debt, including student loans);
 - (b) any Collateral that has been paid in full by the obligor; or
 - (c) any Collateral if the obligor on such Collateral becomes insolvent, or if a ceiver, custodian, or the like is appointed for the obligor.

Prior to such withdrawal, however, the BIC shall update any relevant Collateral Schedule(s) and provide substitute Collateral acceptable to the Bank.

5.0 REPRESENTATIONS, WARRANTIES, AND COVENANTS

- 5.1 The BIC represents and warrants that if Collateral is subject to internal loan ratings, it has been reviewed according to the Borrower's internal loan review system, and the risk ratings assigned to the Collateral are accurate.
- 5.2 The BIC will provide for periodic audits of assets pledged to the Bank, and will notify the Bank immediately of any irregularities discovered during the process of such audits. At a minimum, the BIC will provide the Bank annually with a certification of compliance with the terms of this BIC Agreement.

6.0 RIGHT TO INSPECT

6.1 The Bank may inspect the location(s) where Collateral is kept and any item of Collateral to verify the BIC's compliance with the terms of this BIC Agreement. At any time reasonably deemed necessary by the Bank, the BIC shall grant the Bank access to the BIC premises and Collateral, as well as access to information pertaining to the Collateral on any computers owned or leased by the BIC.

7.0 DELIVERY OF COLLATERAL TO THE BANK

7.1 The Bank may require delivery and take possession of Collateral or any item of Collateral at any time without prior notice to or the consent of the BIC. Upon the Bank's demand, the BIC shall assemble and make such Collateral available to the Bank as the Bank directs, including arranging and paying for its transportation. The BIC shall execute any endorsements, assignments or powers of attorney to effect transfer or disposition of such Collateral to the Bank or as otherwise directed by the Bank.

8.0 TERMINATION

8.1 The Bank or the BIC may terminate this BIC Agreement by giving written notice of termination to the other party in the manner specified in the Circular's Credit and Security Terms. When given by the Bank, the notice is effective immediately. Subject to the requirements of Paragraph 8.2, when given by the BIC, the notice is effective when received by the credit function at the Bank. The rights and liabilities of the parties under a BIC arrangement survive any termination of the BIC arrangement until all Obligations of the Borrower to a Reserve Bank that arose before termination have been satisfied in full in immediately available and finally collected funds.

8.2 Termination is not effective until the BIC, at its expense, delivers to the Bank Collateral and any relevant documents, including endorsements, assignments, or powers of attorney, that the Bank requires to secure any outstanding Obligations.

9.0 EFFECT ON PREVIOUS BIC AGREEMENT

9.1 This BIC Agreement supersedes any previous BIC Agreement executed by the Borrower.

EXHIBIT 1

LETTER OF AGREEMENT FOR BORROWER-IN-CUSTODY

[Letterhead of the Borrower's Head Office]

Date: _____

Federal Reserve Bank of _____

Address

City, State, Zip

Attention:

In consideration of being able to request advances from you and your making advances to us secured by our pledge to you of collateral that you will permit us to hold in safekeeping for you, and to secure any advance or indebtedness or other obligation to you that we may incur, we agree to the provisions of Appendix B to your Operating Circular No. 10, effective January 2, 1998, as amended from time to time.

Full legal name of Borrower

By: _____
Authorized signature(s)

Name(s)

Title(s)

EXHIBIT 2

LETTER OF AGREEMENT FOR DESIGNATING A THIRD-PARTY CUSTODIAN

[Letterhead of Depository Institution]

Date:

Federal Reserve Bank of

Address

City, State, Zip

Attention:

To Whom It May Concern:

In order to be able to request advances from you, or incur other indebtedness to you, and in consideration of your making advances and allowing us to incur indebtedness secured by our pledge to you of collateral that you will permit a custodian to hold in safekeeping for you, and to secure any advance, indebtedness or other obligation to you that we may incur after making that pledge of collateral, we agree to the provisions of Appendix A ("Custody Agreement") to your Operating Circular No. 10, effective January 2, 1998 , as amended from time to time. We designate _____ as the Custodian under the Custody Agreement.

Name of depository institution

By: _____
Authorized signature(s)

Name(s)

Title(s)

EXHIBIT 3

LETTER OF AGREEMENT FOR A THIRD-PARTY CUSTODIAN

[Letterhead of Custodian]

Date: _____

Federal Reserve Bank of _____

Address

City, State, Zip

Attention:

We agree to act as Custodian for collateral pledged by _____ (“Institution”) to secure the repayment of indebtedness owed to you by such Institution and, as such, to be bound by the provisions of Appendix A (“Custody Agreement”) to your Operating Circular No. 10, effective January 2, 1998, as amended from time to time. Notices required under the Custody Agreement should be sent to _____.

(List department(s) or function(s), and address(es))

We acknowledge that it is our responsibility to ensure that we have in our possession current copies of the Custody Agreement and the Circular.

Name of Custodian

By: _____

Authorized signature(s)

Name(s)

Title(s)