

Discount Window & Payment System Risk Acceptance Criteria for Commonly Pledged Asset Types¹

Acceptance Criteria Applicable To All Securities:

- 1) The pledging institution must have rights in the securities that are sufficient to grant an enforceable security interest to the Reserve Bank. The Reserve Bank must be able to obtain a perfected, first priority security interest in the securities, free of the adverse claims of third parties, including the claims of an insolvency official or an affiliate of the pledging institution.
- 2) Securities should not be subject to any regulatory or other constraint(s) that impairs their liquidation.
- 3) Securities may not be obligations of the pledging institution or an affiliate of the pledging institution, or otherwise correlated with the financial condition of the pledging institution.
- 4) Unless otherwise indicated, securities must be rated investment grade and in some cases must be rated "AAA" (where indicated). If more than one rating is available, the most conservative (lowest) rating will determine whether the requirement is met.
- 5) Intermediated securities must be transferred to the Reserve Bank's account at DTC, NBES, Euroclear or Clearstream. Certificated securities must be held at a custodian approved by the Reserve Bank.
- 6) Securities denominated in eligible foreign currencies are acceptable where indicated. Eligible foreign currencies are: Japanese Yen, Euro, Australian Dollars, Canadian Dollars, British Pounds, Danish Krone, Swiss Francs, and Swedish Krona.
- 7) Contact your Reserve Bank regarding the eligibility of privately placed securities.

Acceptance Criteria Applicable by Security Type:

Security Type	Acceptance Criteria
U.S. Treasuries & Fully Guaranteed Agencies - Bill/Notes/Bonds/Inflation Indexed/Zero Coupon/STRIPs	
FDIC Temporary Liquidity Guarantee Program & NCUA Temporary Corporate Credit Union Liquidity Guarantee Program - Bills/Notes/Bonds/Zero Coupon	-FDIC Temporary Liquidity Guarantee Program & NCUA Temporary Corporate Credit Union Liquidity Guarantee Program debt will be treated as a corporate bond after the Guarantee end date
Government Sponsored Enterprises - Bills/Notes/Bonds/Zero Coupon	-For structured notes, the principal balance may not be structured as a derivative
Foreign Government Agencies	-Includes securities backed by guarantees of export credit agencies -Foreign denominated securities are acceptable and must be AAA rated
Foreign Government, Foreign Government Guaranteed, and Brady Bonds	-Includes securities backed by guarantees of government export credit agencies -Foreign denominated securities are acceptable
Supranationals - Bills/Notes/Bonds	-Foreign denominated securities are acceptable and must be AAA rated
Corporate Bonds	-Excludes convertible bonds -Includes subordinated debt -For structured notes, the principal balance may not be structured as a derivative -Foreign denominated securities are acceptable and must be AAA rated
Covered Bonds	-Must be U.S. issued
German Jumbo Pfandbriefe	-U.S. dollar and foreign denominated securities are acceptable and must be AAA rated
Municipal Bonds	-Municipal bonds without ratings may be acceptable; contact your Reserve Bank for additional details -Foreign denominated securities are acceptable and must be AAA rated
Asset Backed Securities	
Collateralized Debt Obligations	-Must be AAA rated
Commercial Mortgage Backed Securities	-Must be AAA rated
Agency Backed Mortgages - Pass Throughs/CMOs	-Excludes IO, PO, Z, inverse floater, and residual tranches
Private Label - Pass Throughs/CMOs	-Must be AAA rated -Excludes IO, PO, Z, inverse floater, and residual tranches
Trust Preferred Securities	-Dividend payments must not be suspended
Certificates of Deposit, Bankers' Acceptances, Commercial Paper, Asset Backed Commercial Paper	
GSE Preferred Stock	
Select Mutual Funds	Acceptability is determined on a fund-by-fund basis <u>Minimum acceptability requirements:</u> -Mutual fund shares must be considered an eligible investment for the pledgor by its regulator -The underlying securities in the portfolio must be domestic assets that by themselves would be acceptable as a type of collateral -Underlying assets must be rated investment grade -The method used to determine the fund's net asset value must be transparent Contact your Reserve Bank for more information.

Acceptance Criteria Applicable To All Loans:

- 1) The pledging institution must have rights in the loans that are sufficient to grant an enforceable security interest to the Reserve Bank. The Reserve Bank must be able to obtain a perfected, first priority security interest in the loans, free of the adverse claims of third parties, including the claims of an insolvency official or an affiliate of the pledging institution.
- 2) Loans should not be subject to any regulatory or other constraint(s) that impairs their liquidation, including but not limited to environmental law or other forms of lender liability.
- 3) Loans must be in readily negotiable, transferable or assignable form.
- 4) Loans must be payable to the pledging depository institution, unless an alternative arrangement is approved by the Reserve Bank.
- 5) Notes must be stored on the pledging depository institution's premises or at a Reserve Bank, unless an alternative arrangement is approved by the Reserve Bank.
- 6) Loans must be pledged at the note level (e.g. if a drawdown under a master note is pledged, the master note itself must also be pledged). The maturity dates and outstanding balances of all drawdowns may not exceed the maturity date and current face amount of a pledged master note.
- 7) Loan participations must be clearly structured as purchase-sale transactions and must not contain any assignability restrictions. Participations in loans to the pledging institution's affiliates are not acceptable.
- 8) Loans with any of the following characteristics are not acceptable:
 - Loans classified as Other Assets Especially Mentioned, Substandard, Doubtful or Loss, or that are otherwise identified for management's special attention;
 - Loans to insiders, including loans to directors, officers or principal shareholders;
 - Loans to an affiliate of the pledging depository institution
- 9) Loans secured by the stock or credit of the pledging institution or an affiliate are only acceptable in limited circumstances and with the approval of your Reserve Bank.
- 10) Loans to foreign obligors are only acceptable in limited circumstances and with the approval of your Reserve Bank.
- 11) FRBs will review the pledging depository institution's internal risk rating policies to determine acceptable risk ratings for pledged loans.

Acceptance Criteria Applicable by Loan Type:

Loan Type	Acceptance Criteria
Agricultural Loans	Must not be more than 30 days past due
Commercial Loans & Leases	Must not be more than 30 days past due
US Agency Guaranteed Loans	-Only the guaranteed portion of the principal balance may be pledged as a guaranteed loan. The non-guaranteed portion must be pledged as a non-guaranteed loan -The guarantee must be fully transferable to the Reserve Bank, as determined by the Reserve Bank; generally, guarantees of the Small Business Administration, U.S. Department of Education, the Export Import Bank of the United States, and the Rural Housing Service are transferable
Commercial Real Estate Loans	Must not be more than 30 days past due
Construction Loans	Must not be more than 30 days past due
Raw Land Loans	Must not be more than 30 days past due
1-4 Family Mortgage Loans (first lien)	Must not be more than 60 days past due
1-4 Family Mortgage Loans (second lien, home equity)	Must not be more than 60 days past due
Private Banking Loans	Must not be more than 60 days past due
Consumer Loans - Unsecured	Must not be more than 60 days past due
Consumer Loans & Leases (auto, boat, etc.)	Must not be more than 60 days past due
Consumer Loans - Credit Card Receivables	Must not be more than 60 days past due
Consumer Loans - Subprime Credit Card Receivables	Must not be more than 60 days past due
Student Loans	Must not be more than 60 days past due

Please contact your Reserve Bank for additional criteria.

1. This document is for informational purposes only, is subject to change without notice, and is not binding on the Federal Reserve System in any particular transaction.

Additional Information:

[Discount Window and Payment System Risk Margins Table](#)
[Frequently Asked Questions](#)

Change History

12/7/2009: The acceptance criteria for senior unsecured debt issued under the NCUA's Temporary Corporate Credit Union Liquidity Guarantee Program (TCCULGP) was added, effective 12/7/2009.