

BORROWER-IN-CUSTODY

Collateral Program

Electronic Collateral Guidance



**FEDERAL RESERVE BANK
OF MINNEAPOLIS**

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Introduction

The Federal Reserve Bank of Minneapolis (FRB) accepts electronic loan collateral pledged through the Borrower-In-Custody (BIC) Program as specified on the [Discount Window](#) website. This supplemental guidance is intended to provide additional clarity to the safekeeping and identification requirements for electronic collateral pledged through the program.

Electronic Collateral

Electronic collateral falls into two categories: (1) notes originated and stored electronically, or (2) notes originated on paper and then converted to electronic images, with the paper originals intentionally destroyed. This definition does not include cases where an institution images paper promissory notes for convenience or backup purposes but keeps the paper originals.

Safekeeping

Authoritative Copy and Non-Authoritative Copies

Only one Authoritative Copy (i.e., the electronic equivalent of the original) of the pledged electronic promissory note may exist at any time. Every duplicate of the Authoritative Copy must be clearly identifiable as non-authoritative—for example, labeled "This document is a non-authoritative copy."

Duplicates (i.e., non-authoritative versions) often remain stored in loan origination systems (including third-party systems) even after the Authoritative Copy has been created and stored separately in a system designated for permanent recordkeeping. Any such duplicates must either be purged or clearly labeled as non-authoritative to avoid confusion.

Imaged and Destroyed Originals

Institutions must have a formal process to destroy paper originals in a timely, organized way. This process may include destruction logs, receipts, and periodic audits. If a third party handles destruction, the institution must either audit the third party's practices or confirm that the third party audits its own process regularly.

If paper collateral must be kept temporarily to confirm the imaging process worked correctly, it should be destroyed as soon as possible. While retained, it must be labeled and controlled the same way as other physical collateral, following the storage and labeling requirements described in the BIC Program Requirements.

Identification

Operational Controls Requirements

Electronic collateral must be clearly labeled to show that the notes are pledged to the Federal Reserve Bank of Minneapolis (FRB). BIC participants may satisfy this requirement using one of the following options:

Option 1: Label Segregated Collateral

If the pledged electronic collateral is segregated from assets that are not pledged to the FRB, the following labeling method may be used:

A splash screen, pop-up message, or other conspicuous notation that meets both of these criteria:

- Appears each time the user accesses the system, folder, or directory containing collateral pledged to the FRB.
- States that the loans in that system are pledged to the FRB.

Option 2: Label the Authoritative Copy

The Authoritative Copy of each pledged electronic note must include one of the following:

- A legend stating that the note is pledged (e.g., "This note is pledged to the Federal Reserve Bank of Minneapolis"), or
- A clear notation or metadata value confirming the pledge.¹

This label must be permanently attached to the Authoritative Copy so it cannot be accidentally removed.

¹ The metadata value must be prominently displayed and cannot be bypassed when accessing the pledged document.

Option 3: Use System-Level Notifications

Instead of labeling each note individually, BIC participants may meet **all** of the following conditions:

1. **System indicator:** The general ledger or loan system shows an electronic flag for pledged notes, or a current list of pledged notes is available or easy to obtain.
2. **On-screen alert:** A splash screen, pop-up, or similar notice appears every time a user logs into the system containing pledged collateral. This alert must:
 - Require the user to take action to close or minimize it, or stay visible for a reasonable amount of time.
 - State that loans in the system may be pledged to the FRB.
 - Provide clear instructions for confirming whether a specific loan is pledged. This includes identifying the physical location of the paper schedule, the intranet page for the electronic schedule, and/or the name or title of an employee who can provide this information.

Three examples of acceptable labels for Option 3:

a.

Notes stored in [name of system/application] and coded as [describe code used] in [name of system/application] are pledged to the Federal Reserve Bank of Minneapolis.

OK

or

b.

**Notes stored in [name of system/application] may be pledged to the Federal Reserve Bank of Minneapolis.
FRB Pledged notes are identified on a paper schedule located at [physical location of paper schedule].**

OK

or

c.

**Notes stored in [name of system/application] may be pledged to the Federal Reserve Bank of Minneapolis.
FRB Pledged notes are identified in an electronic schedule of loans that can be obtained at [identify how to obtain the schedule].**

OK

Example of metadata labeling:

Member #	Account #	Account Type	First Name	Last Name	Document Type	Pledged	Document Date
XXXX	XXX	XXX	Jane	Smith	Promissory Note	Pledged to FRB Mpls	5/15/20XX
XXXX	XXX	XXX	Jane	Smith	Security Agreement	Pledged to FRB Mpls	5/15/20XX
XXXX	XXX	XXX	Jane	Smith	Membership Application	Pledged to FRB Mpls	5/15/20XX