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| FEDERAL RESERVE BANK OF BOSTON (FRBB)  **BORROWER-IN-CUSTODY (BIC)**  **PROGRAM REQUIREMENTS REFERENCE GUIDE**  **(For additional information, please refer to the BIC Program Requirements Handbook)** | |
| **Collateral Acceptability** | * Loans must be owned by the pledging DI (or held in an FRBB-approved affiliate pledge arrangement), stored on the pledging DI’s premises, and maintained free of any adverse claim; * Loans must be current in terms of both interest and principal (not past due more than 30 days for commercial loan types, or 60 days for loans to consumers). * In order to be considered free of “**past collection issues**”, a loan should be current for at least six months. * Loan participations must be clearly structured as purchase-sale transactions (as opposed to a loan from the participant to the lead bank) and must not contain assignability restrictions (e.g., lead bank consent to assignment is not required); * Loans must be payable exclusively in U.S. dollars. Loans to (or guaranteed by) foreign obligors may not be pledged without prior, written FRBB consent; * Loans to affiliates may only be pledged with prior, written FRBB consent; * Noted 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 draw-downs may not exceed the maturity date and face amount of a pledged master note. * The following loan types are **ineligible to pledge**: * Overdraft lines of credit * Loans that are structured as bonds * Loans with outstanding balances that include capitalized interest * Insider loans * Loans with assignability or transferability restrictions * Loans that are part of a relationship where one or more loans have been classified/criticized, have exhibited past collection issues, are on nonaccrual status, restructured/renegotiated (as defined in call report instructions), or frozen * Loans classified by internal/external auditors or by a supervisory agency as Special Mention, Substandard, Doubtful, or Loss * Loans subject to adverse legal actions, including bankruptcy. |
| **Location of Collateral** | All supporting documents evidencing the pledged loans (including promissory notes) should be held together in a segregated, secured, fire-resistant environment. However, when space is limited, a DI may hold such documentation (other than the promissory notes) in a separate location (e.g., file room, cabinets, etc.) in close proximity to where the promissory notes are kept within the secured facility.  The notes and supporting documentation should be housed in a location that is both accessible to and known by the FRBB. Physical access should be controlled, limited to specific individuals, and the removal of documentation should be tracked. Ideally, the collateral should be maintained in a secured vault that allows for immediate removal in the event that the FRBB needs to take possession of the collateral. |
| **Pledge Identification** | Any electronic and physical reports containing one or more loans pledged to FRBB must include a legend (or other coding mechanism) indicating that some or all of the loans listed on the report are pledged to FRBB in order to put employees and third parties on notice of FRBB’s interest in the loans. This is typically accomplished in one of three ways:   * A notation or flag is placed on the DI’s general ledger such that this flag automatically appears on all generated reports containing pledged loans (e.g.: if HELOCs are pledged, the name of the HELOC general ledger account is changed to “HELOCs – Pledged to FRBB”). * A code or flag is able to be programmed into the DI’s loan system such that this code automatically appears on all reports containing pledged loans. * A code or flag is able to be manually toggled within the DI’s loan system such that when employees generate reports containing pledged loans they have the ability to ensure the flag is enabled. **If this option is chosen, the DI must also draft a brief set of written procedures governing how and when employees toggle the flag such that it appears on all reports.**   Additionally, pledged notes, loan/syndication agreements, and participation certificates/ agreements must be prominently identified as pledged to the FRBB in one or more of the following ways.   * The file folder containing the documentation is labeled to indicate that it is pledged to the FRBB; * The documentation is segregated in one or more file cabinets/drawers that are labeled to indicate that the contents are pledged to the FRBB; and/or * The documentation is held in a defined area where a highly visible sign indicates that the contents are pledged to the FRBB. |
| **Documentation Requirements** | At a minimum, the loan file must contain the *original* note (and *original* note amendments and/or modifications) and, if not included explicitly in the note but referenced therein, a copy of supporting documentation specifying the loan amount and/or maturity date.   * Pledged notes must be **complete** (no pages are missing). * Pledged notes must contain “**promise to pay**” language.   For purchased loans, *original* assignment documentation must be included.  For loan participations **originated** by the DI, the loan file must contain the *original* note (and any *original* note amendments and/or modifications), *original* participation agreement and a copy of the Participation Schedule (showing each party’s interest in the loan).  For loan participations **purchased** by the DI, the loan file should, at a minimum, contain copies of the promissory note, participation certificate and/or participation agreements.  Other supporting documentation does not have to be filed with the above documents, but should be identified and readily available. FRBB staff may review additional documentation during on-site inspections. |
| **Reporting Requirements** | If pledged notes are stored off-site, the DI must complete and submit the RIM Audit Certification Addendum. Additionally, the DI must submit copies of any imaging procedures as well as contracts/agreements with the off-site storage facility.  An updated loan credit/administration policy must be submitted to FRBB annually and any time changes are made. Similarly, if loans subject to internal risk ratings are pledged, an updated internal risk rating policy must be submitted annually and any time changes are made.  Any time other internal/external loan reviews/audits covering pledged loans are conducted (e.g.: a commercial loan review that assesses a DI’s risk ratings or an internal audit assessing the documentation, controls, processes and procedures regarding a DI’s consumer loans), the DI should submit such reports to FRBB along with any management response.  Approximately every 12-18 months, your institution is required to re-certify the responses that you provided to the questions on the BIC Compliance Certification Form during the set up process (please refer to the BIC Program Requirements Handbook for additional information). FRBB will contact you when your next compliance certification is due.  Periodically, at the discretion of FRBB staff, we may request that your internal or external auditors review your BIC arrangement to ensure compliance with BIC program requirements. Upon FRBB determination that a BIC Audit will be required, advance notification will be provided to your institution. |
| **Collateral Updates** | A BIC Collateral Cover Letter and updated loan detail must be submitted to the Reserve Bank (i) by the 10th day of each month and (ii) any time the aggregate outstanding principal balance of the pledged loans declines by *10% or more in* *between* monthly updates.  Monitoring for declines of 10% or more should be conducted at least semi-monthly.  A written withdrawal request should be submitted by an individual authorized per OC-10 documentation if an entire loan type or all pledged loans are being withdrawn. Submissions can be made electronically (upon FRBB approval) or by mail. |
| **Collateral Listing Components** | DIs should make every attempt to submit trials as Excel files, with each loan type (as determined by call report/NCUA code) in a separate tab (alternatively, each loan type may be in a separate file). Loan trials should mirror FRBB’s Trial Template (available from FRBB or at [www.frbdiscountwindow.org](http://www.frbdiscountwindow.org)) and, once approved, **must not be altered by the DI**.  Institutions are expected to transmit collateral listings and cover letters using an approved method of secure transmission. The following methods may be used to securely transmit this documentation: Zix, Intralinks or email with Mandatory Transport Layer Solution (TLS). To register for Zix secure e-mail, please access the link below and follow the instructions:  <https://SecureEmail.FederalReserve.com>  The following link provides additional information with regard to activating your Zix e-mail account:  <http://io.ocio.frb.org/documents/Secure_Email_Getting_Started_Guide.pdf>  Please contact Discount Window collateral staff if you have questions or would like additional information.  Once registered, please forward all BIC program materials to[**crmops.bos@bos.frb.org**](mailto:crmops.bos@bos.frb.org). |
| **Trial and Cover Letter Guidelines** | Trials and cover letters should adhere to the following guidelines:   * Loan/account numbers must be unique. * A loan’s outstanding principal balance should not exceed the current/original face amount. * Maturity dates must be in the future (or blank if the loan is payable on demand). * Loans must contain only eligible risk ratings, if applicable. * Loans must contain correct call report/NCUA codes based on the eligible asset type. * Cover letters must be signed by the appropriate number of authorized individuals per the DI’s OC-10 documentation. * Trial must contain the DI’s name, ABA number and balance “as of” date. * For SBA loans, the **whole loan** must be pledged. The guaranteed portion must be included on an “SBA” tab within the trial while the unguaranteed portion must be included on a separate tab based on the asset type of the loan (e.g.: C&I, CRE, etc.). **Please contact FRBB for more information if you do not currently pledge SBA loans and wish to do so.** * Loan participations must be reported on the trial such that the **original** **whole loan amount** is shown as the “Original Face Amount” and the **original amount of the bank’s owned portion** is shown as the “Current Face Amount”. If you are unable to report “Current Face Amount”, then the **original amount of the bank’s owned portion** should be shown as the “Original Face Amount”. * The “Current Face Amount” field is designed to account for any changes to the loan amount since origination. For instance, if a loan was originated for $500,000 and was amended to $600,000 three years later, the “Original Face Amount” would show $500,000 while the “Current Face Amount” would show $600,000. * The cover letter must list the address of ***all locations*** where pledged loans are held. All pledged loans should be held in one location unless an alternate arrangement has been approved by FRBB. * Totals on the cover letter must match the totals on the trial (do not truncate, round-up, or round-down). * If the DI pledges by purpose, please ensure that both the outstanding balance by call report code and the outstanding balance by purpose columns on the cover letter are completed and that the totals for each column match.   FRBB has modified its collateral pledge requirements to allow pledges of subprime/high risk loans to consumers at a margin that is 5% lower than that applied to prime consumer loans.  DIs should refer to regulatory guidance in determining whether loans are prime or subprime/high risk.   * Subprime loans should be reported within a separate tab/worksheet of DIs’ existing monthly BIC trial.  A separate tab/worksheet needs to be added for each specific subprime asset type.  For instance, if a DI pledges home equity lines of credit and secured consumer loans and now wishes to include subprime loans related to both asset types, then two new tabs/worksheets must be created.  The DI’s trial will contain the existing tab/worksheet for home equity lines of credit, the existing tab/worksheet for secured consumer loans, a new tab/worksheet for subprime home equity lines of credit and a new tab/worksheet for subprime secured consumer loans.  The subprime tab/worksheet for a specific asset type should be displayed and formatted exactly the same as the existing tab for the prime asset type that the DI currently submits (e.g.: the subprime home equity lines of credit tab/worksheet should be formatted exactly the same as the prime home equity lines of credit tab/worksheet).  The new tabs/worksheets can be named “HELOC - Subprime”, “Consumer Secured – Subprime”, etc. or other similar titles. * Subprime loans should be reported on the “Other” line of the Collateral Schedule Cover Letter.   For instance, if a DI continues to pledge prime home equity lines of credit but is now also pledging subprime home equity lines of credit, the prime loans will be reported within the existing “Home Equity Loans/Lines of Credit” line item on the BIC Collateral Cover Letter and the subprime loans will be reported within the “Other (Specify) \_\_\_\_\_\_\_” line item, where you may enter “HELOC – Subprime” in the space provided (or other similar language).  If a DI happens to be pledging multiple subprime asset types, the DI may create additional “Other (Specify) \_\_\_\_\_\_” line items within the BIC Collateral Cover Letter (via a simple copy/paste of the existing line item).   ***\* Please note that it can take 24 hours to process trials. If the DI sends in a trial and anticipates borrowing that day, the DI should notify us immediately.*** |
| **Discount Window Contact Information** | Toll-free phone number: 800-716-3773  General Email address: [CRMOPS.BOS@BOS.FRB.ORG](mailto:CRMOPS.BOS@BOS.FRB.ORG)  Mailing Address: Credit Unit, H-3  Federal Reserve Bank of Boston  600 Atlantic Avenue  Boston, MA 02210 |