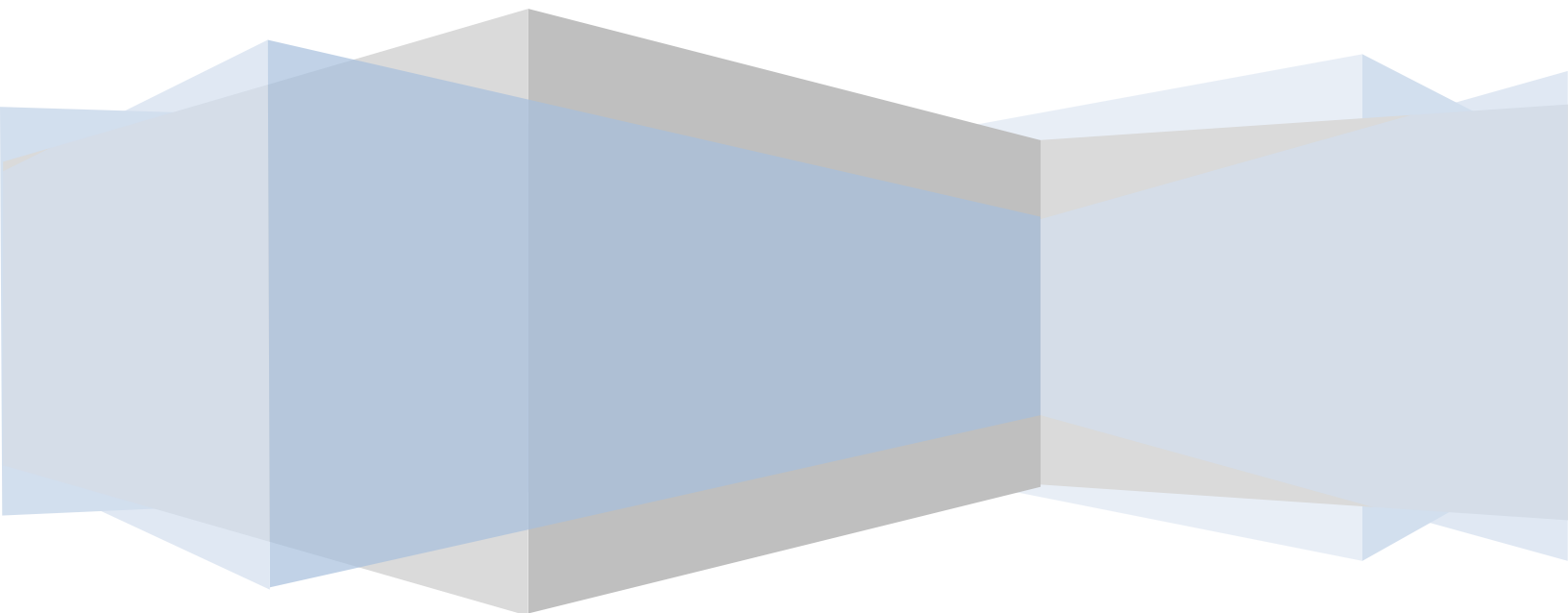


Federal Reserve Bank of Atlanta

Vault Loan Program

Overview & Delivery Instructions



Vault Loan Program

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Vault Loan Program

Introduction

The Vault Loan Program is designed for institutions interested in pledging portions of their loan portfolio but do not qualify for the Borrower-in-Custody (BIC) Program. The Vault Loan Program applies to the pledge of an institution's customer loans that are physically held at the Federal Reserve Bank (FRB).

Assets held under the Vault Loan Program may be pledged to the FRB for Discount Window or Payment System Risk (PSR) purposes; however, collateral pledged will support both purposes.

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. Contact an analyst if you have questions completing any of these documents. These agreements must be in place before an institution may pledge collateral or borrow from the Discount Window, and preferably be in place before implementing the Vault Loan Program process or at least be in conjunction with the setup of the arrangement.

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 domestic institutions interested in access to the Federal Reserve Discount Window must complete the Operating Circular No. 10 (OC-10) agreements listed below. Similar documents are required for branches and agencies of foreign banks.

Form of 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. 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 Resolutions 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 send in the Official

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OC-10 Authorization List described below. 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, e-mail 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 Resolutions 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 Vault Loan Program Documents

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

Endorsement Certification

The Endorsement Certification gives the FRB authority to endorse the notes should we need to take legal ownership in order to satisfy any unpaid liabilities of your institution to the FRB. The FRB would only endorse the notes in an extreme situation where your institution was unable to satisfy outstanding liabilities. In order to endorse notes, your institution will need to provide the FRB with a stamp with your institution's name in addition to the Endorsement Certification.

Assignment

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

Electronic Pledge Authorization Letter

The Electronic Pledge Authorization Letter is used to indicate which individuals are 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.

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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 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-1 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 will not assign a collateral value until a completed UCC-1 financing statement is on file for your depository institution. The UCC-1 filing and search charges will be absorbed by FRB Atlanta. More information can be obtained by contacting us.

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 lien may already be filed on 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 information on their website addressing this issue.

Loan Eligibility Requirements

The loans pledged to the FRB must be owned by your financial institution. The FRB will use this information to determine whether the Vault Loan Program 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/Payment System Risk

- One- to four- family residential mortgage loans;
- Consumer loans (including home equity loans);
- Commercial loans;
- Commercial real estate loans;
- Agricultural loans;
- U.S. Agency Guaranteed loans;
- Construction loans;
- Raw land loans;
- Private banking loans;
- Student loans; and
- 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

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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.

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;
- 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; and
- Loans in which the origination or renewal process has not been completed.

Additional Vault Loan 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 that have an outstanding principal balance of less than \$100,000 for commercial loans and \$5,000 for consumer loans;
- Term loans that mature in less than 180 days;
- Loans on nonaccrual status or loans receiving adverse comment from your institution's loan review function;
- Loans subject to classification by regulators; and
- Any other loan in an impaired status (i.e., bankruptcy, etc.). However, reaffirmed loans that have performed as agreed for at least six months may be eligible.²

¹ Bank employee loans are acceptable.

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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 Vault Loan Program qualifications;
- Have acceptable asset quality as determined by the Reserve Bank; and
- 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.

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 FRB will notify you of 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

² Federal Financial Institutions Examination Council's "Uniform Retail Credit Classification and Account Management Policy": Loans in bankruptcy should be classified Loss and charged off within 60 days of receipt of notification of filing from the bankruptcy court or within the time frames specified in this classification policy, whichever is shorter, unless the institution can clearly demonstrate and document that repayment is likely to occur. Loans with collateral may be written down to the value of the collateral, less cost to sell. Any loan balance not charged off should be classified Substandard until the borrower re-establishes the ability and willingness to repay for a period of at least six months.

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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."

Preparing Loans for Delivery

Please ensure the loans being sent for physical delivery meet the standards below.

Documentation

When preparing the loans for physical delivery to the FRB, your institution will need to ensure the appropriate documentation is provided. The required documentation FRB Atlanta requires is:

- Signed Promissory Note (original);
- Participation Agreement: may not contain restrictive language regarding Successors & Assigns (i.e., assignment cannot be contingent on the permission of the lead bank or other parties involved or allow the lead bank or other parties the first right of refusal. This language is usually found under the Successors & Assigns sections of the agreement.)(original);
- Any renewal documents or modifications to the promissory note (original);
- Any additional Participation Certificates/Participation Agreements (copy);
- Recorded page of the Deed of Trust or Mortgage (copy);
- Security Agreement (copy);
- Any amendments or modifications to the Mortgage/Deed to Secure Debt (copy); and
- Assignment for any loans being collateralized by a CD or deposit account (copy).

Loan Organization

When sending in loans, ensure you package the loans:

- In alphabetical order by borrower name or numerical order by loan number;
- All documents should be in folders with the loan number and name of borrower on the front tab;

Loan Documentation Checklists

Each loan should have FRB Atlanta's Original Loan Documentation Checklist attached to it and the appropriate information filled out accordingly. A copy of this form is located at FRB Atlanta's Discount Window page under the Vault Loan Program page.

- If you are adding new loans to your current pledged loan pool, attach a New Loan Deposit Checklist (for each new loan category you are pledging) to the physical loan package.

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- If you are sending in renewal documents for loans currently being pledged, attach a Renewal Loan Deposit Checklist (for each renewal) to the physical loan.

Delivery Instructions

When sending in loans, please send:

- A copy of the Collateral Pledge Form and Collateral Schedule are in the box; and
- A copy of the Collateral Pledge Form and Collateral Schedule are e-mailed to discountwindow@atl.frb.org inbox.

Do not ship the loans until you have spoken to your assigned analyst or a member of the Discount Window staff regarding the shipment. All loan packages should be sent either overnight or second day mail in such a way that the FRB can be assured of the arrival date. Given the nature of the documents, your institution will want to use a courier that will enable you to track the delivery. The loans must be sent directly to our mail center at:

Attn: [Discount Window Contact]
Credit & Risk Management Department
Federal Reserve Bank of Atlanta
2301 DeFoor Hills Road, N.W.
Atlanta, GA 30318-2207

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:

- Master Note Number (if applicable)
- Obligor number
- Obligor name
- Current balance
- Origination balance*
- Origination date* (in short date form)
- Maturity date (in short date form)
- Next payment date (in short date form)
- Loan internal risk rating code
- Interest rate
- Interest rate type (Fixed or Floating)
- Call Report Code

* If possible. Your institution's collateral value will not be penalized if this data is not provided.

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

Collateral should be assigned on the pledge form based asset type. For more information on how to place assets on the pledge form, please refer to the below chart or contact the Reserve Bank.

Collateral Pledge Form Categories of Collateral	Call Report Codes (Schedule RC-C – Loans and Lease Financing Receivables) ³
Agricultural Loans	1.b.; 3.
Commercial Loans	4.a.; 8.
Commercial RE	1.e.(1); 1.e.(2); 1.d.
Construction RE	1.a.(1); 1.a.(2)
Raw Land Loans	1.a.(2)
Consumer Loans, Secured (auto, boat, etc)	6.c.; 6.d.
Consumer Loans, Unsecured	6.b.; 6.d.
Consumer Loans, CC Receivables	6.a.
Private Banking	9.a.; 9.b.(1); 9.b.(2)
1-4 Family Mortgages (1 st Lien)	1.c.(2)(a)
1-4 Family Mortgages (2 nd Lien, Home Equity)	1.c.(1); 1.c.(2)(b)

Electronic Submission of Pledge Form & Loan Listing

Institutions should submit a signed pledge form (PDF) and loan listing (Microsoft Excel). The Collateral Schedule should be separated in different Excel spreadsheets by pool (e.g., agricultural). Collateral Schedules and Collateral Pledge Forms can be submitted via e-mail (secure e-mail is available, call for details).

Examples of the Collateral Schedule and Collateral Pledge Form are posted on the FRB Atlanta's Vault Loan Program information page where this booklet is also located. It is also available from the FRB in electronic form.

Ongoing Maintenance

Withdrawal Instructions

To withdraw a loan from the Vault Collateral Program, e-mail a signed copy of the Withdrawal Form (found on the Vault Loan Program webpage of the FRB Atlanta Discount Window website) to discountwindow@atl.frb.org. Specify the loan number, borrower name and original balance of the loan to be returned. In addition, provide a contact name, phone number and the address of the person who the loans should be shipped to. FRB Atlanta will respond letting you know when the documents are being shipped so you institution will know when to expect them.

³ From FFIEC 031 and 041 Reports of Condition and Income for June 30, 2012 (<http://www.ffiec.gov/>)

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New Loans

To add loans to your current pledged loan pools, refer to the “Preparing Documents for Delivery” and “Delivery Instructions” portion of this document. FRB Atlanta prefers for new loans to be shipped once a month in tandem with the updated Collateral Pledge Form due on the 10th of every month.

Guidance on Renewal Notes

Renewal Notes with a New Loan Number

For loans that are renewed with a new loan number, withdraw the documents held at FRB Atlanta as needed and submit the loan under the new loan number. If the security agreement or mortgage deed is needed for the renewal, notate which documents need to remain with the new loan. Refer to the “Withdrawal Instructions”, “Preparing Loans for Delivery” and “Delivery Instructions” portions of this document for further instruction.

Renewal Notes with the Same Loan Number

For loans that are renewed with the same loan number, ship the renewal documents to FRB Atlanta. Notate that the document(s) represent a renewal and follow the “Delivery Instructions” portion of this document for further instruction.

Acceptance into the Vault Loan Program

Upon receipt of the documents listed above, your institution will be contacted by phone or e-mail if additional information is required. 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 referenced above and any additional information on participations in the Vault Loan Program may be obtained from the Discount Window website at <http://www.frbdiscountwindow.org>. Click “Select Your FRB” → “Atlanta – 6th District” → “Vault Loan Program”.

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

Contacts

Questions about establishing a Vault Loan Arrangement should be directed to a collateral analyst at (888) 500-7390.

Vault Loan Program Application Checklist

Your institution must do the following to be considered for participation in the Vault Loan Program:

- ☐ *Complete the necessary OC-10 legal agreements.*
- ☐ *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 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; and provide the supporting stamp*
- ☐ *Execute an Endorsement Certification, 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

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

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