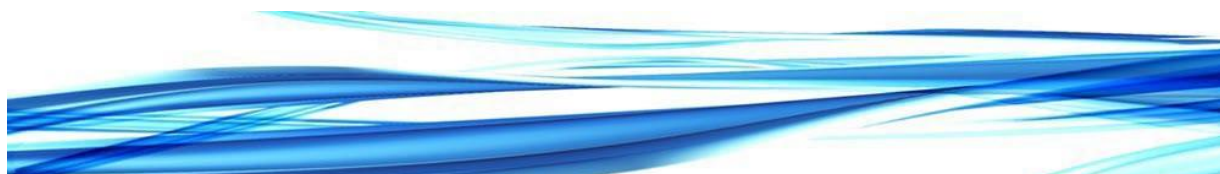


**Federal Reserve Bank of Boston**

# **Borrower-in-Custody (BIC) Program Requirements Handbook**

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# Federal Reserve Bank of Boston BIC Program Requirements

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## Federal Reserve Bank of Boston BIC Program Requirements

### Introduction

The Borrower-in-Custody (BIC) program allows depository institutions (DIs) to pledge loans to the Federal Reserve Bank of Boston (FRBB) as collateral for Payment System Risk (PSR) purposes (intra-day credit) and Discount Window (DW) advances while retaining possession of the loan documentation. DIs participating in the program are required, pursuant to **Operating Circular No. 10 - Lending** (OC-10), Section 7, to ensure that the pledged loans meet the terms and conditions set forth by the FRBB.

### General Eligibility Requirements

Pursuant to **Regulation A**, “An advance to a depository institution must be secured to the satisfaction of the Federal Reserve Bank that makes the advance”<sup>1</sup>. Prior to establishing a BIC arrangement, the FRBB will conduct a due diligence review of each request. Eligibility for the program is based on satisfaction of the following due diligence principles:

- Understanding the financial condition of the pledging DI and the associated risk to FRBB;
- Determining the status of perfection and priority of the FRBB’s security interest in the collateral;
- Understanding the type, characteristics, and quality of loans pledged; and
- Ensuring that the institution’s operational controls with respect to identifying and safekeeping loan documents are acceptable.

The FRBB performs ongoing due diligence reviews of all approved BIC arrangements and may amend or terminate an existing BIC arrangement at any time at its discretion.

### Documents to Execute

OC-10 stipulates that a DI must have current documents and agreements in place to execute borrowings. All documents must remain current at all times. It is your responsibility to inform the FRBB of any changes that would require re-execution of any/all borrowing documents. Failure to maintain current documents will result in a reduction in your institution’s collateral value to zero and your institution will be unable to obtain advances.

For a complete description of applicable documents and agreements, please refer to Appendix A.

### Perfection of Security Interest

All extensions of credit must be secured to the satisfaction of the FRBB by collateral that is acceptable for that purpose. In order to perfect its security interest in the pledged collateral the

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<sup>1</sup> Code of Federal Regulations - Extensions of Credit by Federal Reserve Banks (Regulation A), Part 201.3(a)(2).

## **Federal Reserve Bank of Boston BIC Program Requirements**

FRBB will file a UCC-1 Financing Statement and a UCC-3 Continuation every five years thereafter with the following language:

*All accounts, chattel paper, inventory, equipment, instruments, investment property, general intangibles, documents, and all assets, now owned or hereafter acquired, that are identified, from time to time, by debtor to secured party in writing, by electronic means or by any other means agreed by the parties, as collateral securing the obligations of debtor to secured party under a written agreement between the parties, and all proceeds thereof; and all collateral, guarantees, letters of credit, surety bonds and other supporting obligations pertaining to the foregoing, and all proceeds thereof.*

In addition, it may be necessary to take other action, such as obtaining subordination agreements from other parties to perfect the FRBB's security interest in the collateral. Value will not be assigned until such arrangements are finalized.

### **Approval of the Arrangement**

Upon receipt of your institution's request letter and other required documentation, your application will be assigned to a BIC portfolio analyst. Your institution will receive written confirmation upon approval of the BIC arrangement.

### **Termination of the Arrangement**

Your BIC arrangement may be terminated by the FRBB at any time due to noncompliance with BIC program requirements or at the discretion of the FRBB.

If your institution decides to terminate its BIC arrangement, written notice must be provided (notice provided via email is sufficient). Such notice must be provided by an individual authorized pursuant to your institution's OC-10 documentation. Termination by your institution will be effective upon receipt of notice by the FRBB; however, the rights and liabilities of the parties under the BIC arrangement survive any termination of the BIC arrangement until all outstanding obligations of the Borrower that arose prior to termination have been satisfied in full.

### **Getting Started**

Once all OC-10 documentation (listed in Appendix A) has been properly executed and approved, please submit the documents listed within the "Borrower-In-Custody Program" link on the FRBB's section of the Discount Window website

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(<https://www.frbdiscountwindow.org/pages/select-your-district/boston/frbbostonbic>) These documents include:

- BIC Request Letter
- BIC Collateral Schedule
- BIC Collateral Cover Letter
- Electronic Pledge Authorization Form
- FHLB Collateral Release Form
- BIC Compliance Certification
- Applicable loan policy
- Most recent loan review/internal audit applicable to the loan type(s) to be pledged

You may also contact FRBB directly by calling the Discount Window (800-716-3773) or emailing us at [crmops.bos@bos.frb.org](mailto:crmops.bos@bos.frb.org) and we will provide the document templates and assign a portfolio analyst to assist you.

## Periodic Reporting

Once your BIC arrangement is in place, you agree to provide the following:

- **BIC Compliance Certification Form.** BIC participants are required to complete the BIC Compliance Certification form every 18 months, or more frequently as deemed necessary by FRBB. We will contact you in advance of the due date and provide you with the form along with any additional guidance or instructions. This form must be signed by the appropriate number of authorized individuals per OC-10 as well as your institution's internal or external auditor (or an individual who is independent of the lending function). Following submission, a BIC portfolio analyst will schedule a call with you in order to discuss your responses and ask additional questions as needed.

**Please note that institutions completing a BIC Compliance Certification form in order to establish a BIC arrangement are not required to have their auditor sign the form. This requirement will begin with the next compliance submission.**

- **Records and Information Management (RIM) Arrangements.** If pledged notes and/or other loan documentation are stored off-site, your institution may also need to complete and submit the RIM BIC Compliance Certification Addendum. A RIM arrangement is deemed to exist if:
  - ✓ Any pledged original notes/amendments/modifications/assignments or original titles collateralizing the pledged loans are stored at an off-site facility.

## Federal Reserve Bank of Boston BIC Program Requirements

- ✓ If supporting legal documentation (recorded mortgages, security agreements, UCC filings, etc.) and/or supporting credit documentation (e.g.: credit analysis memorandums, financial statements/tax returns, appraisals, etc.) are stored at an off-site facility **and** these documents are **not** accessible via the bank's imaging system.

If your institution has a RIM arrangement, please also submit copies of any imaging procedures as well as contracts, agreements and financial/operational reviews or analyses with/of the off-site storage facility. Please send this information to FRBB at the same time as the completed/signed BIC Compliance Certification form.

- **BIC Specific Audit.** Annually, in order to attest to the information in the BIC Compliance Certification form, your institution's internal or external auditor (or an individual independent of the lending function) must conduct an audit assessing compliance with BIC program requirements and testing the accuracy of information submitted on the collateral schedule by reviewing a sample of pledged loan documentation. Please send the most recently completed report, along with any management response, to FRBB upon completion. Please see Appendix B for further guidance.
- **Loan Policy.** You are required to submit your institution's most recent loan policy governing pledged loan types at the same time as the completed/signed BIC Compliance Certification form, or whenever changes are made. If your pledge includes commercial loan types, please include your internal risk rating methodology.

*If your internal risk rating methodology changes, please notify FRBB immediately as changes to your methodology may affect collateral value.*

- **Loan Reviews.** If your pledge includes **commercial loans**, you are required to submit all loan reviews for pledged portfolios *upon completion*. Commercial loan reviews will typically assess your institution's risk rating system, credit administration practices, compliance with policy, and documentation of exceptions to policy, among other items.
- **Audits.** If you pledge **consumer loans**, you are required to submit all internal or external audits of pledged portfolios *upon completion*. These audits will typically assess your institution's loan origination process, loan disbursement process, adequacy of loan documentation and internal controls, compliance with policy and exception reporting, among other items.

*Failure to submit loan reviews or internal/external audits of pledged portfolios in a timely manner may result in a reduction of your institution's collateral value or termination of your BIC arrangement.*

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Please send all documentation to the FRBB's e-mail inbox: [crmops.bos@bos.frb.org](mailto:crmops.bos@bos.frb.org) using one of the secure methods outlined on page 13.

### Collateral Acceptability

#### *Acceptability criteria<sup>2</sup>*

- Loans must be in readily negotiable, transferable or assignable form **(e.g., loans may not be subject to restrictions on assignment or transfer, such as provisions requiring borrower consent to an assignment or transfer), except as otherwise provided below:**
  - **Domestic syndicated commercial loans that are explicitly pledgeable to an FRB may be pledged even if such loans are subject to contractual limitations on assignment or transfer.**
  - All other loans are ineligible even in cases where the assignability clause indicates the loan may be pledged to a Federal Reserve Bank (due to the fact that it does not explicitly state that the FRBB can transfer the loans without restriction). If you are interested in pledging participation or syndication loans with assignability restrictions, please contact your BIC analyst to determine whether the restrictions can be cured via a modification.
- Loans cannot 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.
- Loans must be current in terms of both interest and principal. Commercial loans must not be more than 30 days past due; consumer loans must not be more than 60 days past due.
- The pledging institution must have rights in the loans that are sufficient to grant an enforceable security interest to the FRBB. The FRBB 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.
- 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.

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<sup>2</sup> For further information, please refer to the Federal Reserve Collateral Guidelines located at [frbdiscountwindow.org](http://frbdiscountwindow.org).

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- Loans 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.
- Loans to foreign obligors are only acceptable in limited circumstances and with the prior approval of FRBB.
- Loans must be payable to the pledging depository institution, unless an alternative arrangement is approved by the FRBB.
- Loans must not be classified as Special Mention, Substandard, Doubtful or Loss, or with internal risk ratings or other characteristics otherwise deemed unacceptable by the Reserve Bank.
- For loans that are ink-signed, the pledging institution must have possession of the original notes, original note amendments/assignments, and other required documentation.
- Loans structured as bonds are not eligible to be held in a BIC arrangement, but may be pledged through other means. Please contact your assigned BIC analyst for details.
- In addition to loans that are ink-signed, loans with digital signatures (“electronic loans”) are generally eligible to pledge subject to approval by FRBB. In addition, ink-signed loans that are imaged with the original paper copy destroyed (“imaged and destroyed”) may also be eligible in certain cases subject to approval by FRBB. Please contact your assigned BIC analyst for details regarding the application process or if there are other questions.

### Documentation requirements

- The pledging institution must possess the **original** promissory note and all **original** modifications, amendments and/or assignments for all pledged loans unless approved to pledge electronic or imaged and destroyed loans. Original notes and modifications, amendments and/or assignments<sup>3</sup> should be stored together, and should be readily accessible and available for review.
  - For loan participations<sup>4</sup> **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 and amendments, participation certificate and/or participation agreements.



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- For loan syndications where a **promissory note exists**, the loan file must contain the original note (along with all original modifications and amendments) and a copy of the Credit Agreement (and copies of any modifications/amendments to the Credit Agreement). Additionally, if the DI is not a lender in the original syndicate, the DI

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<sup>3</sup> Includes “skip pay” coupons, which are considered modifications of the original note.

<sup>4</sup> Loan participations must be clearly structured as purchase-sale transactions

## Federal Reserve Bank of Boston BIC Program Requirements

must have an assignment and assumption agreement transferring all of the assignor's rights and obligations as a lender to the DI in the assigned loan amount. The assignment agreement should be signed (electronic signature is acceptable) by the assignor and the DI as well as all other required parties (i.e.: borrower, administrative agent, etc.).

- For loan syndications where a **promissory note does not exist**, the loan file must contain a copy of the Credit Agreement (and copies of any modifications/amendments to the Credit Agreement) and a copy of the administrative agent's register showing the DI's interest in the loan. A register is a record maintained by the administrative agent that typically lists the names/addresses of the lenders, the loan amounts, any assignments, etc. The Credit Agreement must also contain language indicating that in the absence of a note, the administrative agent's register is definitive evidence of the borrower's payment obligations. Additionally, if the DI is not a lender in the original syndicate, the loan file must contain an assignment and assumption agreement transferring all of the assignor's rights and obligations as a lender to the DI in the assigned loan amount. The assignment should be signed (electronic signature is acceptable) by the assignor and the DI as well as all other required parties (i.e.: borrower, administrative agent, etc.).
- Copies/images of other supporting documentation (including legal documentation such as recorded mortgage, UCC filings, etc.) are sufficient and do not have to be filed with the above documents, but should be identified and readily accessible. FRBB staff may review additional documentation (including legal documentation and credit reviews), during on-site inspections. **Notwithstanding the foregoing, automobile titles must be original unless the state in which the vehicle is registered authorizes electronic titles.**

### Eligible Loan Types

Loans are pledged based on their respective FFIEC or NCUA call report code. A list of the most commonly pledged eligible loan types are:

- 1-4 Family Residential First Mortgage Loans (Owner Occupied/ Non-Owner Occupied)
- Commercial Loans
- Commercial Real Estate Loans (including 5+ Multifamily Loans)
- Secured and Unsecured Consumer Loans<sup>5</sup>, including but not limited to:
  - Home Equity Loans
  - Auto Loans
  - Student Loans
  - Boat Loans

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<sup>5</sup> FRBB has modified its collateral pledge requirements to allow pledges of subprime/high risk credit cards receivables; for further information on pledging such loans, please refer to Appendix C.

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- Manufactured Housing Loans
- Credit Cards
- Agricultural Loans
- Construction Loans
- Raw Land Loans
- Government Guaranteed Loans
- Municipal Loans
- Non-Profit Loans
- Commercial Letters of Credit (Standby Letters of Credit are ineligible)
- Loan Participations with no restrictions on assignability.
- Loan Syndications that are explicitly allowed to be pledged to an FRB even if such loans are subject to contractual limitations on assignment or transfer.

For detailed information regarding eligible loan types and associated margins, please reference the collateral margins table at <http://www.frbdiscountwindow.org>.

## Monthly Processing

### *Collateral Schedules*

Institutions are required to submit an updated collateral schedule **in a format that is able to be processed in accordance with the** schedule below:

- a. If the institution's name begins with letters **"A-L"**, the pledge is due by the 10th of the month for the last day of the prior month (usually the 30th or 31st).
- b. If the institution's name begins with letters **"M-Z"**, the pledge is due by the 25th of the month. The as-of-date for the monthly trial will be the 15th and the pledge can be submitted anywhere from the 16th to the 25th of that month.

**Once the format of your collateral schedule is approved by FRBB, it is critical that the identical format be used for all subsequent submissions. Any change in format will cause delays in processing and may result in a reduction of your collateral value.** In most cases, collateral schedules are required to meet "ALD" (Automated Loan Deposit) specifications, which allow the FRBB's systems to value each pledged loan individually<sup>6</sup>. For more information, please refer to the [Automated Loan Deposit page on the Discount Window & Payment System Risk website](#). Collateral schedules that cannot be processed using ALD are referred to as "Group" deposits, whereby each pledged asset type is recorded and valued as one aggregate amount.

*Collateral Schedules should adhere to the following guidelines:*

- ✓ **All data on the collateral schedule must accurately reflect the information within the pledged loan documentation.**
- ✓ Loan/account numbers must be unique.
- ✓ The outstanding principal balance should not exceed the current face amount.

<sup>6</sup> Note that, in order for FRBB to avoid lending on matured collateral, loans that mature within 45 days of the "as of" date on the collateral schedule will receive zero value.

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- ✓ For demand loans, the maturity date must be reported as 1/1/9999, 12/31/9999, or blank.
- ✓ Loans must contain only eligible risk ratings, if applicable.
- ✓ Loans must contain correct call report code<sup>7</sup> based on the asset type.
- ✓ Collateral schedule must contain the DI's name, ABA number and "as of" date.
- ✓ For government guaranteed loans, the **whole loan** must be pledged. The guaranteed portion will generally receive a higher collateral value when segregated from the unguaranteed portion and reported on a "Government Guaranteed" tab, with the unguaranteed portion included on a separate tab based on the asset type of the loan<sup>8</sup> (e.g.: C&I, CRE, etc.) or consolidated within the specific non-guaranteed portion of Agency Guaranteed loans category. Participation and syndication loans should be identified within a separate field/column on each commercial loan collateral schedule. Non-physical loans should also be identified in a separate field/column.
- ✓ If the pledge is stored in more than one location, the location address must be indicated in the file for each individual loan.
- ✓ Loan participations must be reported 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 subsequently amended to \$600,000, the "Original Face Amount" would show \$500,000 while the "Current Face Amount" would show \$600,000.

### Expanded ALD Reporting Requirements

Certain institutions are required to comply with the new ALD reporting requirements whereby an expanded set of loan data elements are reported in a pipe-delimited text file format. If your institution meets the criteria to report in the new format in the future, FRBB will contact you and will provide further details at that time. The set of loan data elements differs by the pledged loan type with the intent of capturing additional cash flow, credit and risk management information. Loans may receive a reduction in collateral value (or zero collateral value) if certain required loan data elements are either not provided or are invalid.

These institutions should adhere to the detailed file specifications and loan data element definitions that are outlined within the [Federal Reserve System Discount Window website](#). This website will also provide details on the institutions that are required to comply as well as how collateral value is determined. Please note that institutions will generally have 12 months to build and submit acceptable loan files. This does not impact your institution's reporting frequency (i.e.: monthly), the due date by which your collateral schedule should be submitted (i.e.: the 10<sup>th</sup> of the month if your institution's name begins with letters "**A-L**"), or the method by which you transmit the collateral schedule (i.e.: ZIX secure e-mail). On a periodic basis, FRBB will perform a validation of the expanded set of loan data elements and will contact you at that time in order to discuss details and logistics.

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Institutions not required to comply with the new requirements may opt-in voluntarily. Please contact your BIC portfolio analyst if you would like to pursue this option. If you decide not to opt-in, your institution should follow the collateral schedule reporting guidance provided in the previous section. From a collateral valuation perspective, these institutions will receive general assumptions for the additional loan data elements that are not reported.

Please reach out to [crmops.bos@bos.frb.org](mailto:crmops.bos@bos.frb.org) or your BIC portfolio analyst with any questions.

### Cover Letter

A cover letter, which will be provided to you when your BIC arrangement is established, must accompany each monthly collateral schedule. The cover letter must include your institution's name and ABA number, the "as of" date of the pledge, and the address of **all locations where pledged loan documentation is stored** within the appropriate sections of the form. The cover letter **MUST** be signed by the appropriate number of individuals who are authorized per the OC-10 documents your institution has on file with FRBB; the titles of these individual(s) must also match **exactly** to what appears in OC-10. Additionally, totals on the cover letter must match the totals that are reported on the collateral schedule (do not truncate, round up, or round down). **A cover letter that is not filled out properly will delay collateral schedule processing and may result in a reduction in collateral value.**

***Please note that collateral schedules are generally subject to a 24-hour processing time; however, the processing time may be longer in certain cases. If your institution submits a collateral schedule and anticipates borrowing that day, please notify us immediately.***

<sup>7</sup> NCUA call code fields should reflect the balance, not the number of loans.

<sup>8</sup> Specific formatting requirements for Government Guaranteed loans will be provided upon request. Please contact your BIC analyst for more information on reporting the non-guaranteed portion of Agency Guaranteed loans.

## Federal Reserve Bank of Boston BIC Program Requirements

### *Submitting Collateral Schedules and Cover Letters*

Institutions are expected to transmit collateral schedules and cover letters using one of the following approved methods of secure transmission: 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: <https://support.zixcorp.com/>

Please contact Discount Window collateral staff if you have questions or would like additional information.

### *Compliance*

If monthly collateral schedules are submitted late or in a format that is not able to be processed (e.g.: contains past due loans/matured loans/loans with ineligible risk ratings, cover letter incomplete or contains errors, etc.), a haircut may be applied to the pledge until the following month's schedule is processed. In the event of continued noncompliance and/or other processing violations, FRBB may take action to further reduce your institution's collateral value. Ongoing violations may result in termination of your BIC arrangement.

### **Monthly Monitoring (the 10% rule)**

The aggregate outstanding principal balance of pledged loans must be monitored between reporting periods to ensure that it does not decrease by more than 10%. If the overall value of the pledged loans decreases by 10% or more between reporting periods, you are required to submit an updated collateral schedule and cover letter immediately. At a minimum, such monitoring should be performed bi-weekly.

### **Storage and Pledge Identification**

#### *Storage*

All documentation evidencing the pledged loans (including original promissory notes and original modifications/amendments/assignments) should be held together in a segregated<sup>9</sup>, secured, fire-resistant environment. However, when space is limited, an institution may hold supporting documentation (other than the promissory notes and modifications/amendments/assignments) in a separate location (e.g. file room, cabinets, etc.) in close proximity to where the promissory notes are kept within the secured facility. Such documentation must be readily identifiable and accessible.

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<sup>9</sup> While the segregation of pledged collateral from unpledged collateral is optimal, it is not mandatory as long as pledged loans are clearly identified both physically and electronically. If FRBB ever needed to take possession of pledged loans and could not easily and expeditiously identify its collateral, FRBB may take possession of pledged and unpledged loans and would return unpledged loans at a subsequent time.

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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 documentation should be maintained in a secured vault that allows for immediate removal in the event that the FRBB must take possession of the collateral.

If pledged loan documentation is stored at a RIM, documentation related to pledged loans must be segregated from other stored documentation and all documentation related to each pledged loan must all be stored within the same file/folder.

The location of all pledged loan documentation must be noted on the Cover Letter. Pledged loan documentation should be housed in one facility unless prior approval to maintain multiple locations is obtained from FRBB. If housed at more than one location, the pledge should indicate the location next to each loan.

***Prior notification to FRBB is required if pledged loan documentation is relocated. Failure to notify FRBB prior to relocating pledged loan documentation may result in a reduction in collateral value.***

Electronic and imaged and destroyed loans should generally be stored in a manner that is secure, controlled as well as accessible by, and known to, FRBB. Please contact your BIC analyst for additional information.

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### *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 the below 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 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 ensure that written procedures are in place governing how and when employees toggle the flag such that it appears on all reports.
- ✓ A stamp or legend on the report that states "Some of the loans may be pledged to FRBB".

There may be additional identification requirements for certain electronic loans. Please contact your BIC analyst for additional information.

Additionally, pledged notes/modifications/amendments/assignments must be prominently identified as pledged to the FRBB in one or more of the following ways (this does not apply to electronic or imaged and destroyed loans).

- ✓ 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.

### Inspections

Periodically, at the discretion of FRBB, staff will perform a review of your institution's BIC arrangement. Such review will assess your institution's compliance with BIC program requirements, which includes, but is not limited to, the accuracy of the data that is reported on the monthly collateral schedule and the acceptability of key operational controls. We may conduct this review prior to establishment of your BIC arrangement. Further, the review may be conducted on-site at your institution, or off-site. FRBB staff will contact you in advance of any planned on-site or off-site review in order to provide you with additional information and guidance. It is expected that all documentation requested will be available upon arrival and



## **Federal Reserve Bank of Boston BIC Program Requirements**

additional information will be supplied upon request. Failure to comply with these requests may result in an adverse effect on the collateral value available.

Documentation examined during the review includes, but is not limited to:

- Original notes, modifications, amendments and assignments
- Legal documentation, such as recorded mortgages, UCC filings and security agreements
- Credit files and/or credit analyses for commercial loan pledges

## **Contact Us**

**If you are interested in establishing a BIC arrangement, please call the FRBB Discount Window at (800) 716-3773, or email FRBB at [crmops.bos@bos.frb.org](mailto:crmops.bos@bos.frb.org). Additional information regarding a BIC arrangement may be obtained from the Federal Reserve Discount Window website at [www.frbdiscountwindow.org](http://www.frbdiscountwindow.org), or by contacting your BIC portfolio analyst.**

## Federal Reserve Bank of Boston BIC Program Requirements

### Appendix A - Documents to Execute

The following documents must be in place prior to establishing a BIC arrangement.

#### *Required Discount Window Borrowing Documents*

- ***Letter of Agreement (OC-10, Appendix 3)***

The Letter of Agreement binds your institution to the provisions of OC-10. The Letter of Agreement must be typed on your letterhead and signed by an appropriately authorized officer(s) per the Authorizing Resolutions for Borrowers (see below). If two individuals are required to execute documents per the Authorizing Resolutions for Borrowers, two must sign the Letter of Agreement.

- ***Form of Certificate (Letter of Agreement, Schedule A, OC-10, Appendix 3)***

The Form of Certificate provides the FRBB with the information needed to make an effective UCC-1 financing statement filing against the borrower.

- ***Authorizing Resolutions for Borrowers (OC-10, Appendix 3)***

This document certifies that your board of directors has provided authority to borrow from the FRBB and identifies, by title, those officers authorized to send in the names, titles, and signatures of individuals permitted to issue instructions on the institution's behalf.

- ***Official OC-10 Authorization List (OC-10, Appendix 3)***

This document provides a list of individuals with authority to borrow from the discount window and pledge assets to the FRBB. The Authorization List must be signed by an appropriately authorized officer(s) per the Authorizing Resolutions for Borrowers. If two individuals are required to execute documents per the borrowing resolution, two must sign this document.

#### *Additional Documents That May Be Required*

- ***Agreement for Third Party Custodian to Hold Collateral (OC-10, Appendix 5)***

This document sets forth the terms of agreement among the FRBB, the borrower, and the custodian that holds loans pledged by your institution under the Lending Agreement. If the third-party custodian is an affiliate of your institution, it must execute this Agreement. Depending upon the specifics of the arrangement, this Agreement may require modifications.

- ***Letter of Agreement to Correspondent Credit and Payment Agreement (OC-10, Appendix 5, Exhibit 1)***

If your institution does not have a Federal Reserve account, this agreement allows your institution to select a correspondent to receive discount window advances and make payments on your institution's behalf.

## Federal Reserve Bank of Boston BIC Program Requirements

### Appendix B – BIC Specific Audit Guidelines

Pursuant to **Operating Circular No. 10 - Lending** (OC-10), Section 10.0 (m) Covenants, *“in any BIC Arrangement, the Borrower shall provide for periodic audits of BIC-held Collateral pledged to the Bank, shall notify the Bank immediately of any irregularities discovered during any audits, shall certify periodically, as determined by the Bank, that it is complying with the requirements of the BIC Arrangement, and shall ensure risk ratings assigned to any Collateral subject to Borrower’s internal loan ratings are accurate”*

The purpose of the BIC Specific audit is to ensure that the pledging institution remains compliant with both its own internal policies and procedures, as well as with BIC program requirements, on an ongoing basis. When performing the BIC Specific Audit, the institution’s internal/external auditor should evaluate all relevant internal policies and procedures and review a sample of pledged loans for reporting accuracy as set forth below.

**Frequency:** The BIC Specific audit should be conducted annually. The audit and any management response should be forwarded to FRBB *upon completion*. FRBB should be notified immediately of any irregularities discovered during the audit.

**Scope:** The scope of the BIC Specific audit should include verification that BIC collateral is documented, stored and managed in accordance with BIC program requirements as set forth herein. In addition, the auditor should select a representative sample of loans from the most recent collateral schedule and confirm that the information contained on the collateral schedule accurately reflects the information contained in the promissory notes/modifications/amendments and that all notes/modifications/amendments/assignments are original.

The BIC Specific audit should assess the following:

Pledged collateral acceptability: Assess the institution’s processes for ensuring that pledged loans meet all acceptability criteria (i.e.: pledged loans must be current, etc.) as set forth herein

Pledged collateral storage: Assess the institution’s processes for ensuring that pledged notes are stored in secure, limited access areas

Pledge identification: Assess the institution’s processes for ensuring that pledged loans are prominently identified as pledged to FRBB, and that any electronic/physical reports containing pledged loans include a legend/flag indicating that some or all of the loans listed on the report are pledged to FRBB

Periodic reporting requirements: Assess the institution’s processes for ensuring that updated loan/risk rating policies are submitted to FRBB annually and/or any time changes are made, and that audits/loan reviews of pledged loan collateral are performed regularly and submitted to FRBB upon completion

Collateral updates: Assess the institution’s processes for ensuring that a BIC Collateral Cover Letter and collateral schedule are submitted to FRBB by the due date and any time the outstanding principal balance of pledged loans declines by 10% or more between reporting dates

## Federal Reserve Bank of Boston BIC Program Requirements

### Loan-level validation:

#### 1. Data quality

Assess the institution's processes for ensuring that information reported on the collateral schedule accurately reflects the information contained in the loan documentation. In addition to the above, a representative sample of loans from the most recent collateral schedule submitted to FRBB should be reviewed to confirm that the information contained on the collateral schedule accurately reflects the information contained in the promissory notes/amendments/credit memoranda.

#### 2. Eligibility

For the same representative sample as noted above, ensure that all loans are eligible to be pledged based on the criteria outlined in the "Collateral Acceptability" section of this handbook.

The final report and any management response should be emailed to: [crmops.bos@bos.frb.org](mailto:crmops.bos@bos.frb.org)