APPENDIX A: Qualified Collateral

The assets listed below constitute Qualified Collateral as defined in the “Collateral” section of this policy. Assets held in a subsidiary are only qualified upon execution of subsidiary pledge documents.

The Bank may, in its sole discretion, refuse certain collateral, or adjust collateral discounts or valuations applied, based on the financial condition of the member, and on the Bank’s review of the overall quality and volatility of the value of the collateral pledged as determined by the results of on-site collateral reviews and the Bank’s risk analysis.

		Valuation for Collateral Purposes	
		<u>Depository Financial Institution Members in Category 1 (Blanket) Status Only</u>	**<u>Depository Financial Institution Members That List or Deliver Collateral; and Insurance Company Members (16)</u>**
1.	Fully disbursed whole first mortgages on owner-occupied one- to four-family residential property. (1) (10) (11)	60% - 75% of book value (See Schedule 1 below.) (15) (17)	Not greater than 80% of the lower of book value or market value as determined by the Bank (See Schedule 1 below.) (2) (12) (15) (17) (18)
	Fully disbursed whole first mortgages on owner-occupied one- to four-family residential property insured by the FHA. (1) (11)	85% of book value	90% of the lower of book value or market value as determined by the Bank (2) (12)
	Mortgages or other loans, with the exception of SBA and USDA loans, regardless of delinquency status, to the extent that the mortgages or loans are insured or guaranteed by the United States or any agency thereof. Such insurance or guaranty must be for the direct benefit of the member pledging the mortgage or loan as collateral. (1)	75% of book value	80% of the lower of book value or market value as determined by the Bank (12)
		<u>All Members (16)</u>	
	Fully disbursed whole first mortgages on non owner-occupied one- to four-family residential property. (1) (11)	50% of the lower of book value or market value as determined by the Bank (3) (12)	
	Fully disbursed whole first mortgages on residential property of five or more units. (1) (4)	65% of the lower of book value or market value as determined by the Bank (2) (3) (4) (12)	
2.	Securities issued, insured, or guaranteed by the United States government or any agency thereof, except for mortgage-backed securities issued, insured, or guaranteed by the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association (5) (16)	95%-97% of market value (6) (16)	
	Mortgage-backed securities issued, insured, or guaranteed by the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association (5) (16)	90% of market value (6) (16)	
	Non-agency, mortgage-backed securities representing an unsubordinated interest in whole first mortgage loans on improved residential property not more than 90 days delinquent in a discounted amount up to the amount of the member’s GAAP capital. (5) (10) (14)	50% of market value (6) (14)	
	Securities representing an equity interest in collateral eligible for advances. Specifically, these securities must represent an undivided equity interest in underlying assets, all of which qualify as eligible collateral under Section 1 or 5 (Loans) or 2 (Securities) of this Appendix A. (5)	The discount for this collateral will be determined in accordance with the discount applicable to the underlying assets.	
	The Bank will normally not accept as collateral derivatives of the securities noted in Section 2 that contain excessive interest-rate and/or other financial risk. For example, the Bank will normally not accept interest-only or principal-only strips of these securities, or the residual and Z tranches of collateralized mortgage obligations.		
3.	All funds placed in deposit accounts at the Federal Home Loan Bank of Boston and specifically pledged to the Bank as collateral. (7) (16)	100% of book value	
4.	For Community Financial Institution (CFI) members, secured small-business, small-agribusiness, and small-farm loans that are within the member’s legal lending limit for loans to one borrower. (8) (9)	50% of the lower of book value or market value as determined by the Bank (12)	

	Valuation for Collateral Purposes
	All Members (16)
5. Other real estate-related collateral in a discounted amount up to two times the member's GAAP capital. Such real estate-related collateral must have a readily ascertainable value, and the Bank must be able to perfect a security interest in it. (10) (11)	
- Mortgages or other loans (13)	50% of the lower of book value or market value as determined by the Bank (13)

Schedule 1.
Collateral Valuation for Fully Disbursed Whole First Mortgages on Owner-Occupied One-to-Four Family Residential Property

Loan Type	Depository Financial Institution Members in Category 1 (Blanket) Status Only (17)	Depository Financial Institution Members That List or Deliver Collateral; and Insurance Company Members (16)
Conventional	75% of book value	As determined by the Bank (18)
Nontraditional	72% of book value	As determined by the Bank (18)
Subprime (19)	60% of book value	As determined by the Bank (18)

'Subprime' and 'Nontraditional' mortgage loans are defined in accordance with Appendix D of the Products Policy. Eligible mortgage loans that do not meet the definition of either of these two loan types are defined as 'Conventional'.

Footnotes

1) There should be no tax liens on these loans. Loans on which any payment is overdue by more than 45 days, or loans considered 30 or more days delinquent in accordance with the FFIEC loan delinquency reporting methodology are ineligible (either method is acceptable to the Bank). These loans should not be made to officers, directors, employees, attorneys, or agents of the member institution or the Bank. Loans with loan-to-value (LTV) ratios over 90 percent at the time the loan is originated (with the exception of Loans insured under Title II of the National Housing Act, i.e., insured by the FHA) must have private mortgage insurance.

   For the Bank's purposes, 100 percent participation certificates backed by fully disbursed whole first mortgages on residential property are the equivalent of whole loans. These 100 percent participation certificates will receive the same valuation as the equivalent whole loans included in the Section 1 collateral subgroups.

   The Bank does not accept loans guaranteed by the Small Business Administration or the U.S. Department of Agriculture as collateral. The Bank is not able to perfect its security interest in such loans at this time.

   Definition of Owner-occupied Principal Residence: Loans must be secured by owner-occupied dwellings. An owner-occupied dwelling is the borrower's primary residence. Second homes, vacation homes, or other investor type properties do not qualify under this collateral section. These non-owner-occupied 1-4 family residential loans must be individually listed with the FHLB, and are subject to individual review and acceptance. First liens on non-owner-occupied 1-4 family loans are included as "Fully disbursed whole first mortgages on non-owner occupied one- to four- family residential property", and second liens are included as Section 5, "Other Real Estate Related" collateral.

2) For members that specifically list or deliver collateral, the collateral valuation of owner-occupied, one- to four-family and multifamily residential loans fully insured by the FHA will be the lesser of 90 percent of market value as determined by the Bank, or 90 percent of book value. For members that are not required to specifically list or deliver this collateral, the collateral valuation of owner-occupied, one- to four-family residential loans fully insured by the FHA will be 85 percent of book value.

3) This collateral is subject to individual review and acceptance by the Bank. If accepted, at a minimum, this collateral will be listed with the Bank.

4) The collateral valuation of multifamily loans with Low Income Housing Tax Credits will be the lesser of 95 percent of market value as determined by the Bank, or 95 percent of book value. In order to receive the higher collateral valuation, multifamily loans must meet certain criteria established by the Bank. Please contact the Collateral Department at 617-292-9729 for additional information.

5) All securities that a member uses to satisfy its minimum collateral maintenance level must be delivered to the Bank or to a Bank-approved custodian. A member that holds securities in a security corporation may be allowed to deliver as collateral the stock certificate(s) that evidences its ownership of the security corporation. In this event, the member will be required to safekeep the underlying securities with the Bank.

   Members must ensure that the Bank has the unsubordinated first-priority security interest in securities they use to satisfy their minimum collateral-maintenance level at the Bank, and that no other entity has a security interest superior to the Bank's interest.

   If a member uses an approved third-party custodian, it must give the Bank the unsubordinated first-priority interest by entering into a control agreement with the custodian and the Bank. Securities pledged through a third-party custodian must be under the exclusive control of the Bank, and the custodian must provide daily pricing to the Bank.

   Securities representing ownership of a subsidiary are only qualified if the member executes the Bank's Securities Corporation Stock Pledge Agreement, which may be obtained from the Bank's Collateral Department.

6) Securities delivered to the Bank typically will be valued at 50 to 97 percent of market value.

   Securities issued or guaranteed by the United States government or any agency thereof (except for mortgage-backed securities issued, insured, or guaranteed by the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association) with a remaining term to maturity of three years or less delivered to the Bank or to an approved third-party custodian under a control agreement typically will be valued at 97 percent of the daily market value.

   Securities issued or guaranteed by the United States government or any agency thereof (except for mortgage-backed securities issued, insured, or guaranteed by the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association) with a remaining term to maturity greater than three years delivered to the Bank or to an approved third-party custodian under a control agreement typically will be valued at 95 percent of the daily market value.

   Mortgage-backed securities issued or guaranteed by the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association typically will be valued at 90 percent of the daily market value. AAA-rated senior tranches of non-agency residential mortgage-backed securities typically will be valued at 50 percent of the daily market value.

7) Only include deposit accounts as collateral that have been placed in a collateral overnight deposit account (OND) at the Bank.

8) A community financial institution (CFI) is defined as a member FDIC-insured depository institution that has less than $1.0 billion in average total assets based on the average of total assets for the three most recent calendar yearends. This $1.0 billion average asset cap is effective November 1, 2008. The average total asset limit will be adjusted at the end of each calendar year using the annual change in November's Consumer Price Index for all urban consumers (CPI-U).

9) Small farm loans are loans secured primarily by farmland.

10) Eligible collateral does not include an owner-occupied residential mortgage loan(s), whether pledged individually or as part of a private label (non-agency) mortgage-backed security, that meets one or more of the following criteria:

- The annual percentage rate and/or points and fees charged for the loan exceed the thresholds of the Home Equity Ownership Protection Act of 1994 (HOEPA)[1];
- The loan has been identified by the member's primary federal regulator as possessing predatory characteristics;
- The loan includes prepaid, single-premium credit insurance; and/or
- The loan is subject to state and/or local laws where one or more of the major credit-rating agencies (Standard and Poor's, Moody's Investors Service, and/or Fitch Ratings) will not rate a security (or securities) in which the underlying collateral pool contains such a loan.
- The loan is defined as a High Cost Loan, Covered Loan, or Home Loan in Appendix C of the Products Policy.
- The loan includes penalties in connection with the prepayment of the mortgage beyond the early years of the loan.
- The loan requires mandatory arbitration to settle disputes.

For the purpose of defining a predatory loan, a "residential mortgage loan" is a mortgage loan secured by owner occupied one- to four- family residential property. For this purpose, this definition includes mortgage loans and home equity loans and open-ended home equity lines of credit, including those secured by junior liens.

11) Fully disbursed, closed-end home equity loans secured by first liens on 1-4 family residential real estate are included within Section 1 collateral as 1-4 family mortgage loans. However, Section 1 collateral does not include either home equity loans secured by junior liens, or home equity lines of credit (HELOCs) – whether secured by first liens or junior liens on 1-4 family residential property. These closed-end home equity loans secured by junior liens, and HELOCs secured by first liens or junior liens are included within "Section 5", other real estate-related collateral.

12) The Bank may determine at its sole discretion to value collateral at book value for collateral purposes. The Bank may also determine the market value of a portfolio of collateral loans by extrapolating the observed market value of a representative sample of the member's collateral loans pledged, to the member's collateral portfolio.

13) Fully-disbursed second lien home equity loans, and first lien, and second lien HELOCs may be considered as eligible collateral if these loans are secured by the borrowers' primary residence, and the combined loan-to-value ratio (CLTV) of the loan does not exceed 80 percent. All other home equity loans and HELOCs are not considered eligible collateral. The Bank calculates CLTV by adding the loan balance, or, in the case of HELOCs, the maximum amount of the line of credit, to the first lien loan balance and dividing the total amount by the appraised value of the home.

14) Only depository institution members are eligible to pledge non-agency mortgage-backed securities. Securities rated lower than AAA by any NRSRO at the time they are pledged to the Bank are not eligible as collateral. Eligible securities must be backed by prime mortgage loans, as determined by the Bank.

15) Mortgage loans that allow for negative amortization of the principal balance, including pay-option adjustable rate mortgage loans, are not eligible as collateral. Loans that do not fully comply with either or both, as applicable, of *Interagency Guidance on Nontraditional Mortgage Product Risks* issued by the FFIEC on October 4, 2006 or *Statement on Subprime Mortgage Lending Risks* dated July 10, 2007 are not eligible as collateral.

16) Members that are insurance companies and that use a specific pledge agreement may pledge as collateral only securities issued or guaranteed by the United States or an agency thereof, including mortgage-backed securities issued or guaranteed by Fannie Mae or Freddie Mac, or cash on deposit in a collateral account at the Bank . Discounts applied to securities collateral are increased by 20 percent. For example, a discount of 10 percent is increased to 12 percent, et cetera.

[1] The applicable thresholds are noted in Truth in Lending - Regulation Z -12 CFR 226.32.

17) Loans for which the borrower's ability to service the debt is not evidenced by written documentation may not be pledged to the Bank without specific loan level data. Loans that meet the Bank's definition of both a Subprime and Nontraditional Loan may not be pledged without specific loan level data. If a member wishes to include either or both of these types of loans in its collateral pledge, it must specifically list all loan collateral pledged to the Bank regardless of the member's collateral status.

18) The collateral valuation for loans that are specifically listed with the Bank or delivered to the Bank are determined based on the Bank's analysis of the risk factors associated with the collateral. In no case will the collateral valuation for any loan exceed 80% of book value. For members in Category 2 and Category 3, the collateral valuation will not exceed the amounts noted for each category of loan noted for Depository Financial Institution Members in Category 1 (Blanket) Status.

19) The amount of borrowing capacity that a member may derive from Subprime loan collateral is limited to the lower of two times their most recently reported GAAP capital or one-half of their total borrowing capacity.