

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 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.

| | Valuation for Collateral Purposes | |
|---|--|---|
| | <u>Blanket-Lien Status</u> | <u>Listing and Delivery status</u> |
| 1. Fully disbursed whole first mortgages on owner-occupied one- to four-family residential property. (1) (11) (12) | 65% - 75% of book value (2) (16) | The lesser of 80% of market value as determined by the Bank, or 65 to 75% of book value (2) (13) (16) |
| Fully disbursed whole first mortgages on owner-occupied one- to four-family residential property insured by the FHA. (1) (12) | 85% of book value | The lesser of 90% of market value as determined by the Bank, or 90% of book value (2) (13) |
| Fully disbursed whole first mortgages on non owner-occupied one- to four-family residential property. (1) (12) | Not Applicable (3) | The lesser of 50% of market value as determined by the Bank, or 50% of book value (3) (13) |
| Fully disbursed whole first mortgages on residential property of five or more units. (1) (4) | Not Applicable (3) | The lesser of 65% of market value as determined by the Bank, or 65% of book value (2) (3) (4) (13) |
| Mortgages or other loans, with the exception of SBA 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 | The lesser of 80% of the market value as determined by the Bank, or 80% of book value (13) |
| 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) | Not Applicable | 90%-97% of market value (6) |
| Mortgage-backed securities issued, insured, or guaranteed by the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association (5) | Not Applicable | 85%-90% of market value (6) |
| Non-agency, mortgage-backed securities representing an unsubordinated interest in whole first mortgage loans on improved residential property not more than 90 days delinquent. (5) (11) (15) | Not Applicable | 70% - 75% of market value (6) |
| Securities backed by, or representing an equity interest in, mortgages or other loans, including SBA loans, regardless of delinquency status, to the extent that the underlying 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 securities. (5) | Not Applicable | The lesser of 90% of the market value as determined by the Bank, or 90% of book value |
| Securities, including Bank-approved mutual funds, 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 (Loans) or 2 (Securities) of this Appendix A, or as cash or cash equivalents. (5) (7) | Not Applicable | The lesser of 90% of the market value as determined by the Bank, or 90% of book value |
| 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. (8) | Not Applicable | 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. (9) (10) | Not Applicable (3) | The lesser of 50% of the market value as determined by the Bank, or 50% of book value (13) |

APPENDIX A: Qualified Collateral (continued)

Valuation for Collateral Purposes
Blanket-Lien Status Listing and Delivery status

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. (11) (12)

| | | |
|---------------------------------|--------------------|--|
| - Mortgages or other loans (14) | Not Applicable (3) | The lesser of 50% of the market value as determined by the Bank, or 50% of book value (13) |
| - Securities (5) (15) | Not Applicable | See Schedule A-1 (6) |

Schedule A-1

Valuation of Other Real Estate Related Collateral Securities

Commercial MBS

| Security Rating | Valuation for collateral purposes as a percentage of market value |
|-------------------|---|
| AAA+ ¹ | 65% - 70% |
| AAA | 60% - 65% |

Home Equity Backed ABS

| Security Rating | Valuation for collateral purposes as a percentage of market value |
|-----------------|---|
| AAA | 60% - 65% |

¹ 'AAA+' requires a super senior credit enhancement that equals at least 1.5 times the credit enhancement to the least credit enhanced AAA rated tranche.

APPENDIX A: Qualified Collateral (continued)

Footnotes

- 1) There should be no tax liens on these loans, and no payment should be overdue by more than 45 days. 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 (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 category 1 collateral subgroups.

The Bank does not accept loans guaranteed by the Small Business Administration 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 category. 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 Category 5, "Other Real Estate Related" collateral on the QCR. Also note that "reverse annuity mortgages" should be included as Category 5 collateral. This is because reverse annuity mortgages are not fully disbursed at origination.

- 2) For members in delivery status, 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 in blanket-lien status, 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 maintained in listing status by 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 or with a Bank-approved third-party custodian.

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 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.

APPENDIX A: Qualified Collateral (continued)

- 6) Securities delivered to the Bank typically will be valued at 65 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 market value if the Bank is able to mark these securities to market on a daily basis. If a daily mark-to-market valuation of these securities is not available, the securities typically will be marked-to-market monthly and valued at 92 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 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 market value if the Bank is able to mark these securities to market on a daily basis. If a daily mark-to-market valuation is not available, the securities typically will be marked-to-market monthly and valued at 90 percent of 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 market value if the Bank is able to mark these securities to market on a daily basis. If a daily mark-to-market valuation is not available, these securities will typically be valued at 85 percent of market value.

Senior tranches of non-agency residential mortgage-backed securities typically will be valued at 75 percent of market value if the Bank is able to mark these securities to market on a daily basis. If a daily mark-to-market valuation is not available, the securities typically will be marked to market monthly and valued at 70 percent of market value.

Securities that are Category 5, Other Real Estate Related Collateral, will be valued at 65 to 70 percent of market value if the Bank is able to mark these securities to market on a daily basis. If a daily mark-to-market valuation is not available, these securities will be marked-to-market at least monthly and subject to an additional five percent valuation discount.

- 7) “Cash equivalents” are defined as highly liquid investments that both i) are readily convertible to known amounts of cash and ii) have a remaining maturity of 90 days or less at the acquisition date, such that the investment is so near its maturity that it presents insignificant risk of change in value because of interest-rate fluctuations. Only investments that meet both criteria i) and ii) noted above and that are used as part of an institution’s cash-management activities are included as cash equivalents. Items that generally qualify as cash equivalents under the two-part test include 90-day U.S. Treasury bills and notes, commercial paper, CDs, money market funds, and federal funds sold. However, each investment must qualify under the two-part test. A CD that has a remaining maturity of six months on the acquisition date does not qualify. Furthermore, investments and cash that are designated for special purposes or restricted as to use or withdrawal are not considered cash equivalents.

For example, a security acquired under a repurchase agreement (repo) is restricted as to use and, therefore, does not qualify as a cash equivalent. Note that repos will be considered cash equivalents only if the Bank determines that they meet the following criteria:

- a) The mutual fund in question enters into the repos solely for liquidity purposes and not for other investment purposes;
 - b) The repos are readily convertible into known amounts of cash; and
 - c) The repos have an original maturity of 90 days or less.
- 8) Only include deposit accounts as collateral that have been placed in a collateral overnight deposit account (OND) in delivery status at the Bank.
- 9) 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).

APPENDIX A: Qualified Collateral (continued)

- 10) Small farm loans are loans secured primarily by farmland.
- 11) 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.

- 12) Fully disbursed, closed-end home equity loans secured by first liens on 1-4 family residential real estate are included within Category 1 collateral as 1-4 family mortgage loans. However, Category 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 "Category 5", other real estate-related collateral.
- 13) 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.
- 14) 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.

- 15) Securities rated lower than AAA by any NRSRO at the time they are pledged to the Bank are not eligible as collateral.
- 16) First mortgage loans pledged to the Bank under Blanket Lien status are typically valued at 75 percent of book value for collateral purposes. First mortgage loans pledged to the Bank in Listing and Delivery status are typically valued at the lesser of 80 percent of market value as determined by the Bank or 75 percent of book value.

The Bank may value collateral that meets the Bank's definition of a Subprime Loan, as noted in Appendix E of the Products Policy, at 65 percent of book value in situations when Subprime Loans are greater than 20 percent of the owner-occupied one-to-four family loans pledged by the member.

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