FHLBank Boston

Detailed Pledging Guidelines

Home Equity Lines-of Credit (HELOCs) and Second Mortgages

The Federal Home Loan Bank of Boston's ("the Bank") policies and procedures for pledging Home Equity Lines of Credit (HELOCs) and second mortgages are as follows:

I. Collateral Eligibility:

The Bank accepts HELOCs and second mortgages as eligible collateral under the following provisions:

- In accordance with Appendix A of the Bank's Products and Solutions Guide, HELOCs and second mortgages are eligible under the Category 5, Other Real-Estate-Related Collateral section and are subject to a haircut of 50 percent of the lower of book or market value. This section allows members to pledge "other real-estate-related collateral to the Bank in a discounted amount equal to two times their GAAP capital."
- HELOCs must be secured by a first or second lien on 1-to-4 family primary owner-occupied residential property.
- HELOCs are subject to an initial individual review and acceptance by the Bank. The review of the loan files will typically take place on the member's premises. The loan reviews are conducted to ensure the accuracy of the provided data, and that the credit underwriting and supporting documentation for these loans meet the Bank's collateral eligibility guidelines.
- Members in Category 1 and 2 collateral status will be required to list HELOC collateral. Members in Category 3 collateral status will be required to list and deliver the loans to the Bank.
- A HELOC must have a combined loan-to-value ratio (first and second mortgage) no greater than 80 percent to be eligible as collateral (maximum credit line shall be used in determining combined loan-to-value on HELOCs). However, if the member's maximum CLTV is more conservative (70 percent for example), the Bank will defer to the member's policy and will not accept any exceptions to the member's internal CLTV policy.
- HELOCs must comply with the Bank's anti-predatory lending policy ("APL policy") that requires all loans pledged as collateral to comply with all applicable federal, state, and local laws, including APL laws.
- As required by the Products and Solutions Guide and the Bank's Agreement for Advances, Collateral Pledge and Security Agreement, members have an affirmative responsibility to maintain sufficient qualified collateral to secure extensions of credit.
- Collateral Management periodically monitors members' outstanding collateral balances. This is done through several methods, including qualified collateral reports (QCRs), collateral listings, and on-site collateral reviews. If Collateral Management determines that a member's pledged HELOC collateral presents additional risk, then Collateral Management can restrict a member from pledging HELOC collateral or increase the haircut on the HELOC collateral.
- HELOCs cannot be more than 45 days past due within the most recent 12-month period.
- Loans made to directors, officers, employees, attorneys, or agents of the member institution or the Bank are not eligible for pledging to the Bank, per Federal Housing Finance Agency (FHFA) regulation.
- This collateral must be classified by the member and its primary regulator as "minimal risk." That is, the collateral must not be classified by the member or its regulator as substandard, doubtful, or loss.

II. Listing of Loan Information:

The Bank has established a minimum number of fields of loan information that the member must provide the Bank to pledge HELOCs as qualified collateral. Prior to the visit, the member is required to provide the Bank with a template that lists all loans that will be considered as qualified collateral. This loan file template is completed according to the Bank's HELOC formatting guide and must be detailed to those specifications.

In addition, prior to the review, the member provides its HELOC policies and procedures, a completed loan questionnaire (Bank provided) and a delinquency report.

III. On-Site Loan Review:

The quality of the legal documentation, and credit underwriting of the HELOCs provided as collateral to the Bank is established through the loan review process, which is typically performed by collateral staff at the member's location. The loan review also assesses the accuracy of the loan information contained on the loan file template. The loan file review includes an analysis of the credit and legal files for each loan to determine the eligibility of the collateral.

Legal Documentation: Bank staff validates the ownership and existence of the pledged mortgage collateral to determine the Bank's ability to perfect a security interest in the mortgage collateral. The review determines if the member has perfected all ownership rights to the debt instruments, and that the critical legal documents exist and are accessible to the Bank. The critical legal documents that must be made available are the original note(s), mortgage(s), and certificate of title or title insurance policy.

Loan Credit Files: Documentation in the loan file should support a conclusion that the real estate has a readily ascertainable value. The loan file must include documentation evidencing the balance of the first mortgage (if the HELOC is a second mortgage) at the time of origination of the HELOC. A Certified Appraisal is the preferred source for an opinion of value. However, the valuation method can be an Appraisal, Broker Opinion of Value, Tax Assessment, Automated Valuation Method (AVM), or Officer Opinion of Value with a photograph of the property. Also, pursuant to The Home Equity Consumer Protection Act, evidence of member compliance with required regulatory disclosures must be present in the file for the loan to be considered eligible. Bank staff will review supporting records relating to a borrower's financial strength and credit history, and any other relevant documentation in the loan file correspondence.

Payment History: The payment history must be presented for each loan reviewed to verify that no payment was due more than 45 days beyond the due date within the most recent 12-month period.

Physical inspection of Properties: An on-site property review may be conducted to ensure that the property pledged as collateral exists, the condition of the property does not adversely affect marketability, and the appraisal report adequately describes the premises and demonstrates a well-supported value estimate. These inspections will typically be performed on a representative sample of properties securing loans pledged by a member.

IV. Accepted HELOCs

Members are required to segregate and label as "Collateral for the Federal Home Loan Bank of Boston," all mortgage loans accepted and listed with the Bank.

a) Collateral Valuation

The value placed on these loans typically will be 50 percent of the lower of book or market value of the loans.

b) Update of Loan Information

Members are required to submit a quarterly update of the listing of mortgages pledged as qualified collateral with the Bank. (Update may be increased to monthly at the Bank's discretion.)

c) Release of Mortgage Collateral

Members are required to maintain an amount of qualified collateral that satisfies the collateral maintenance level established by the Bank. Members may not use, commingle, encumber, or dispose of mortgage collateral that has been specifically listed with the Bank without the express written consent of the Bank.

If the value of a member's collateral declines because of market depreciation, loan amortization, or loan payoffs, the Bank may, at its discretion, require the member to substitute qualified collateral that is acceptable to the Bank to offset the decline in the value of the collateral held by the Bank.

d) Fees

In accordance with the Bank's Products and Solutions Guide, members agree to permit Bank personnel to make periodic on-site verifications of collateral pledged. All "out-of-pocket" fees and costs incurred by the Bank in connection with its collateral requirements will be charged to the member. Out-of-pocket expenses are fees incurred by the Bank that are related to the on-site loan file review.