

Pledging & Underwriting Guidelines (Commercial Real Estate and Multifamily Loan Collateral)

I. Collateral Eligibility:

The Federal Home Loan Bank of Boston's ("the Bank") Products and Solutions Guide defines Multifamily (MF) and Commercial Real Estate (CRE) Loan Collateral as follows:

- MF loans must be fully disbursed whole first mortgages secured by residential property of 5 or more units.
- CRE loans must be secured by CRE property and be fully disbursed whole first mortgages.

These loans must comply with the following provisions:

- In accordance with Appendix A of the Bank's Products and Solutions Guide, loans secured by CRE are eligible under the Category 5, Other Real-Estate-Related Collateral (ORERC) section and are subject to a cap or limit. Member institutions (members) may pledge ORERC to the Bank in a discounted amount up to two times their GAAP capital.
- These loans must be owned by the member free and clear of all other liens and encumbrances, including tax liens, and cannot have been in default within the most recent 12-month period.
- Loans made to directors, officers, employees, attorneys, or agents of the member institution or the FHLB Boston are not eligible for pledging to the Bank, per regulation.
- Loans with current loan-to-value (LTV) ratios over 90 percent are not eligible to pledge to the Bank.
- The Debt Service Coverage Ratio (DSCR) for loans typically should be greater than 1.20X. Anything less than 1.20X will be reviewed on a case-by-case basis. Loans with a DSCR below 1.00X are not eligible to pledge to the Bank.
- 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.
- Participation loans are accepted by the Bank. Participation loans in which the member is not the lead bank are accepted. Please note that Category 3 (Delivery) members can only pledge participation loans in which they are the lead bank. The Bank requires additional documentation for participation loans to be pledged as follows:
 1. Executed Addendum to Agreement for Advances Collateral Pledge and Security Agreement;
 2. Executed Addendum to Participation Agreement (loan specific); and,

3. Executed Participation Certificate (loan specific) for purchased participations.

All CRE and MF collateral is subject to review and acceptance by the Bank before a member can pledge and receive borrowing capacity. Collateral reviews typically take place on the member's premises. The loan reviews are conducted to ensure that the credit underwriting and supporting documentation for these loans meet the Bank's collateral eligibility guidelines. If accepted, at a minimum, the loan detail for each loan must be listed with the Bank to receive borrowing capacity. If the member is in Delivery status, the member must deliver the physical note and a copy of the recorded mortgage to the Bank.

The Bank may, at its sole discretion, refuse certain types of high-risk real estate loans to be pledged as collateral. High-risk property types are those that are management intensive/sensitive, single purpose, have high vacancy or limited improvements. These conditions can cause an extended marketing period in case of liquidation. Also, the Bank has identified mortgage or collateral types that represent excessive credit or salability risk and are therefore ineligible. These mortgage and collateral types have been identified in the Excluded Commercial Real Estate Property Types document that can be found on the Bank's website.

II. Listing of Loan Information:

The Bank has established a minimum number of fields of loan information that the member must provide the Bank in order to pledge CRE and MF collateral. Prior to the visit, the member is required to provide the Bank with a template that lists all of the loans to be considered as qualified collateral. This loan file template must be completed and formatted according to the Bank's collateral system's specifications within each required field of data. Information provided in this template and loan documentation provided for review during the on-site visit will be used to review the loan.

Data issues (missing or incorrect) identified by Bank Staff must be corrected before the loans will be added to your collateral position. Data provided from the on-site reviews should not be altered on subsequent template submissions unless updated financial information is available or a loan has been modified. If a loan is modified and loan data has changed, this includes but is not limited to an increase in principal, maturity date, amortization period, or a change in collateral, Collateral Management should be notified. Bank Analysts will review the modified loan documentation for continued eligibility.

III. On-Site Loan Review/Underwriting:

The quality of the legal documentation, credit underwriting, and eligibility of commercial real estate and multifamily loans offered as collateral to the Bank is established through the loan review process, which is performed by the Bank's collateral review staff at the member's location. The loan file review includes an analysis of supporting records relating to a borrower's financial strength and credit history and a property inspection, if needed.

Based on the number of loans pledged by the member, it may not be possible for the staff to review each individual loan. In certain cases, a sample of loans may be selected for review. As

part of the loan file review, at a minimum, the following files and source documents are typically reviewed:

Legal Documentation: The collateral review staff validates the ownership and existence of the pledged mortgage collateral in order to establish and assess the Bank's ability to perfect a security interest in the mortgage collateral. The critical legal documents are the original note, mortgage and deed of trust, and title insurance policy, etc.

Loan Credit Files: The collateral review staff verifies that the loan files contain all the necessary loan documents and related reports such as loan payment history, tax and hazard insurance records, appraisal, title insurance policy, verifications, credit reports, and loan application.

Loan Underwriting: Includes a review of supporting records relating to a borrower's financial strength and credit history, and of the secured property's (ies') ability to generate adequate cash-flow to service the debt. Also includes a review of any other relevant documentation in the loan file.

Original Appraisal Report and Property Analysis: The appraisal is reviewed to confirm the type of property, that the value conclusion is reasonable given all of the factors in the appraisal, and that it complies with proper industry practices. Documentation in the loan file should support a conclusion that the real estate has a readily ascertainable value, including photos of the property. Please note that only the value of the real estate is used to determine the LTV. Analysts do not consider value attributable to fixtures, furniture and equipment (FF&E) and business enterprise.

Environmental Site Assessment Report: The collateral review staff will review the Environmental Site Assessment report that is conducted by a specialized engineering or consulting firm in order to obtain a reasonable perspective on a property's potential environmental problems.

Engineering Documentation: The collateral staff may review the engineering documentation to ensure that the project has been completed per the plans and specifications if needed.

Payment History: For each loan, to verify that no payment has been due more than 45 days beyond the due date within the most recent 12-month period.

Physical Inspection of Properties: An on-site property inspection may be conducted to ensure that the property pledged as collateral actually 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, as needed, on certain properties or on a representative sample of properties securing loans pledged by the member.

IV. Accepted Loans

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

Members may receive an advance rate on MF loan collateral up to 76% of the lower of book or market value of the loans, based on the valuation of each member's specifically pledged portfolio.

Members may receive an advance rate on CRE loans up to 65% of the lower of book or market value of the loans, based on the valuation of each Member's specifically pledged portfolio.

Market values for member-pledged loan portfolios are updated periodically using an outside vendor.

b) Update of Loan Information

Members are required to submit quarterly updates, at a minimum, of the listing of pledged CRE and MF loans with the Bank.

c) Release of Mortgage Collateral

Members are required to maintain at all times 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 due to 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 Agreement for Advances, Collateral Pledge and Security Agreement, FHFA regulation, and the Bank's Products and Solutions Guide, members agree to permit Bank personnel to make periodic on-site verifications of collateral pledged to secure advances. All fees and costs incurred by the Bank in connection with its collateral requirements will be charged to the member.

After the initial on-site loan review, on an ongoing basis, the Bank will perform periodic follow-up collateral verifications of the loans accepted as collateral to ensure continued compliance with the Bank's policies and procedures and collateral eligibility requirements.

Attachment A

CRE/MF Loan Pledging Process

- Step 1. The Bank receives a request from the member that it intends to pledge new or additional CRE and/or MF loan collateral.
- Step 2. Bank staff refers the member to the Bank's website for the Bank's policy and procedures for pledging CRE/MF loans and the respective loan file template.
- Step 3. The member must upload a completed template that lists all of the loans it considers qualified collateral. This loan file template must be completed and formatted according to the specifications of the Bank's collateral system.
- Step 4. Bank staff reviews the completed and uploaded loan file template to ensure that it is complete and formatted exactly to the Bank's specification. This template must be detailed exactly to the Bank's specification before an on-site collateral review will be scheduled.
- Step 5. Upon approval of the loan file template, the Bank staff contacts the member to schedule the on-site collateral review. The review of the loan files will typically take place on the member's premises.
- Step 6. Based upon the results of the review, an on-site property inspection may be conducted for certain properties or on a representative sample of properties securing loans pledged as collateral.
- Step 7. Upon completion of the review, a discussion of the review findings is conducted with the member's management team.
- Step 8. Upon completion of the property inspections (if required), the accepted loans are uploaded to the Bank's collateral system and reviewed by Collateral Management to verify that the requested data changes have been made. The Collateral Management will work with members until the data on the templates matches the data verified from the on-site reviews. Upon confirmation that the data on both templates match, the member will resubmit the templates and the new eligible loans will be included in the member's borrowing capacity the following day at the applicable discounted collateral values.