



Product and Service News

08-05

March 3, 2008

SUBJECT: Member Products Policy

The recently approved Member Products Policy is now available on Bank4Banks®. The key policy changes are noted below. Please read this memo carefully, particularly regarding the first topic below, which addresses subprime and nontraditional collateral.

- The Member Products Policy includes a new *Subprime and Nontraditional Mortgage Loan Policy* section.

Definition – The section includes a more robust definition of the credit characteristics of “subprime” borrowers and their debt repayment histories. The more comprehensive definition of subprime borrowers will give members a better sense of what the Bank deems to be subprime. Similarly, this section also includes a much more detailed definition of nontraditional mortgage loans. The Nontraditional Mortgage Loan definition includes various loan types such as interest-only, payment-option, and negative-amortization, as well as loan features like below-market introductory rates, simultaneous second-lien loans and reduced documentation.

Collateral Certification Forms – The Policy requires members to identify these loan types on their Quarterly Collateral Certification Forms (QCCF) and make the appropriate adjustments on the QCCF Form. In addition, if members wish to include these types of mortgage loan collateral in their Maximum Borrowing Capacity, the Policy requires an on-site Collateral Review so that the Bank may verify the existence and quality of such loans and the adjustments made to the QCCF.

New Annual Certification – New in 2008, members will be required to certify annually that they comply with the latest FFIEC Guidance on Subprime and Nontraditional Mortgage Lending. This certification will be in addition to the quarterly subprime and nontraditional mortgage lending certification that members make when confirming their QCCF. The Policy also outlines the Bank’s discretion to exclude such loan collateral until an on-site Collateral Review can be completed.

MPF® Program – Included in the Policy is a statement regarding subprime and nontraditional mortgage loans as they pertain to the MPF Program. Although the MPF Program Guidelines do not allow the purchase of such loans, the Policy now states that if such loans are discovered through the Bank’s portfolio analyses or during quality assurance reviews, Participating Financial Institutions (PFIs) will be required to repurchase these loans.

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- In the *Collateral Policy* section, the Bank's collateral delivery preference order is clarified. The Policy states that when a member is placed in "collateral delivery" status, the Bank will ask for the most liquid forms of collateral first. The Bank will look for unencumbered investment securities to be delivered first, followed by single-family mortgage loans, multi-family mortgage loans, ORERC and CFI eligible collateral.
- The last Policy change is to update the definition of Community Financial Institution (CFI) for 2008. Members whose average total assets over the past three years have averaged \$625 MM or less are defined as a CFI and can pledge small business loans, agricultural loans and agri-business loans as collateral. The CFI total asset definition has increased from \$599 MM in 2007.

Please review the Bank's Member Products Policy and assess how these changes affect your institution. We continue to look for ways to improve our service delivery to you, our customers and shareholders. We appreciate your business and look forward to serving you each and every day. If you have questions about the new Member Products Policy, please contact me, your Relationship Manager or a Member Money Desk staff member at 800-288-3400, option 3.

Sincerely,

A handwritten signature in cursive script, reading "Craig C. Howie".

Craig C. Howie
Group Director, Member Market Access