

# **Federal Reserve Bank of Richmond**

## **Borrower-in-Custody of Collateral (BIC) Requirements**

### **INTRODUCTION**

The Federal Reserve Bank of Richmond accepts loan pledges from qualifying depository institutions to secure borrowings from the discount window or for payment system risk purposes, subject to certain terms and conditions. The Borrower-in-Custody (BIC) arrangement permits depository institutions to retain possession of assets pledged as collateral. Information contained in this document is to aid in the establishment and maintenance of a BIC arrangement and should be used in conjunction with the requirements of Operating Circular 10, therein. Loan documents stored by a third-party will be subject to additional legal agreements and/or requirements.

### **ELIGIBILITY REQUIREMENTS**

Eligibility for the BIC program is based on the overall financial condition of the depository institution, loan administration controls, documentation practices, asset quality, and ability of the depository institution to meet the requirements of the program.

### **LEGAL DOCUMENTATION REQUIREMENTS**

To qualify for a BIC arrangement, a depository institution must have the necessary Operating Circular 10 agreements including the Form of Certificate on file with the Federal Reserve Bank of Richmond. The agreements can be found at [www.frbdiscountwindow.org](http://www.frbdiscountwindow.org). Storage or servicing arrangements that involve a third-party will be subject to additional legal agreements and/or requirements.

### **PERFECTION OF SECURITY INTEREST**

It is the practice of the Federal Reserve Bank of Richmond to perfect its security interest in pledged loan collateral through a UCC financing statement filing with the state in which the pledging institution is headquartered, as well as in any other state where a collateral pledge site exists. In addition, for some institutions a UCC financing statement will also be filed in Washington, DC.

Institutions who are members of a Federal Home Loan Bank or a corporate credit union should be aware that these entities have likely filed a financing statement on any collateral pledged. If any priority lien interests exist in loan types to be pledged to the Reserve Bank, additional agreements or termination of other filings will be required before loans can be pledged to the Federal Reserve Bank of Richmond. Should the Reserve Bank be unable to establish a satisfactory lien position, the loans will be ineligible for pledge.

### **INELIGIBLE COLLATERAL**

- Loans owned by a subsidiary or affiliate
- Loans made to a depository institution or affiliate of a depository institution
- Loans already pledged to another entity
- Foreign obligor loans
- Loans that are not written in English
- Loans that are not denominated in U.S. dollars
- Loans that have been paid off, sold or matured

- Consumer loans more than 60 days past due (principal and/or interest)
- Commercial type loans (agricultural, commercial, commercial real estate, construction, agency guaranteed, raw land) more than 30 days past due (principal and/or interest)
- Loans on non-accrual status
- Loans classified as Other Loans Especially Mentioned, Substandard, Doubtful, or Loss, or identified as Watchlist
- Loans that fall below the approved internal risk rating
- Loans subject to adverse legal action
- Loans that will mature within 60 days
- Loans to insiders, including loans to directors, officers, or principal shareholders
- Loans with restrictions on assignment or transfer such as provisions requiring borrower consent to an assignment or transfer, except: ***Domestic participation and/or syndicated commercial loans that are explicitly pledgeable to an FRB may be pledged, even if such loans are otherwise subject to contractual limitations on assignment or transfer.*** Please contact the Richmond Collateral Management team to determine whether the restrictions can be cured via a modification.

## INTERNAL RISK RATINGS

The Federal Reserve Bank of Richmond relies on the internal risk rating assigned by the pledging institution to determine the acceptability of commercial type loans. Internal risk ratings are not applicable to consumer loans. In order to rely on the assigned risk ratings, the Reserve Bank must determine whether the loan rating system is acceptable. In order to assess the institution's loan rating system, the Reserve Bank may rely on examination reports and/or discussions with the institution's primary regulator. Provided the institution's internal risk rating system is deemed acceptable, the Reserve Bank will notify the institution which internal risk ratings will be acceptable to pledge and whether they map to "minimal" or "normal" risk. This "minimal" or "normal" designation will be used in valuing loan collateral. After the initial acceptance of the institution's internal risk ratings, it is the institution's ongoing responsibility to inform the Reserve Bank of any changes to its loan rating system.

## COLLATERAL IDENTIFICATION

Loans must be adequately identified as pledged to the Federal Reserve Bank of Richmond. Proper identification is achieved through the labeling of physical documents as well as electronic loan records. Physical labeling is achieved through one or more of the following:

- Label file cabinets with a sign indicating the loan types pledged to the Federal Reserve Bank of Richmond; or
- Place a prominent and conspicuous sign in the loan vault or storage area indicating the loan types pledged to the Federal Reserve Bank of Richmond; or
- Label individual loan files with notification that the loan is pledged to the Federal Reserve Bank of Richmond.

In addition, the depository institution should clearly identify on its loan system that the loan is pledged to the Federal Reserve Bank of Richmond.

## **IMAGED/ELECTRONIC LOAN DOCUMENTS**

The Federal Reserve Bank of Richmond accepts, from qualifying institutions, pledges of consumer loans (not secured by real estate) and credit card receivables where the original wet-ink documentation has been imaged and destroyed. At this time, other loan types that are solely electronic are eligible for pledge only on a case-by-case basis. Loans originated electronically are outside of these guidelines and should be discussed with Reserve Bank staff. The following areas will be assessed when considering the eligibility of imaged consumer loans:

- **Labeling**  
A physical sign must be posted in the loan vault or where any physical loan document (e.g. vehicle titles, etc.) is stored indicating the loan type(s) pledged to the Federal Reserve Bank of Richmond. In addition, electronic labeling of the loan record or the loan image is required. Electronic labeling may be achieved in a number of ways including, but not limited to, electronic notation on each loan record to indicate its pledge to the Federal Reserve Bank, electronic segregation of document images, electronic stamp on each image indicating pledge to the Federal Reserve Bank, or an attention comment prompting users any time an image is viewed that the loan is pledged.
- **Access**  
Appropriate safeguards should be in place to prevent unauthorized access to images. Access to alter or delete images should be limited and reviewed periodically to ensure appropriateness. The labeling or indexing of the images should allow for easy retrieval preferably using the loan number.
- **Quality Control**  
Adequate controls should be in place to ensure the quality of the images. In addition, adequate controls should exist to ensure the proper destruction of original documents.
- **Contingency**  
Adequate contingency or back-up plans should exist should the primary copy of the images be lost.

## **LOAN VALUATION AND MARGINS**

For information on how loans are valued, refer to the [Frequently Asked Questions](#) section of the discount window website.

The current collateral margins table can be found at [here](#).

## **AUTOMATED LOAN DEPOSIT**

Institutions that pledge loans as collateral for Federal Reserve or Treasury program purposes are required to submit periodic reports detailing the pledged loans. In most instances, institutions are requested to submit these reports in a format that supports Automated Loan Deposit (ALD), the Federal Reserve's process for recording loan pledges at the individual loan detail level in its Collateral

Management System (CMS).

To supply ALD-ready files, institutions may submit their collateral reports in a fixed position text file that conforms to the Federal Reserve's [electronic loan file specifications](#). Alternatively, they may submit their collateral reports in Microsoft Excel® format or select other formats.

Institutions are required to utilize the same file layout for each periodic collateral report submission. When reporting in Excel format, the following formatting guidelines apply:

- Files should be saved in Excel 97-2003 format (.xls instead of .xlsx)
- Column headers, including names, spellings, and positions, must remain unchanged
- Worksheet (tab) names and positions must remain unchanged
- Merged cells should be avoided
- Hidden rows and columns should be avoided
- The following Excel number formats should be utilized:
  - “Currency” for dollar amounts (\$0.00)
  - “Short date” for dates (mm/dd/yy or mm/dd/yyyy)
  - Interest rates should be expressed as a percentage with 2 decimal places (5.25%)

#### **NEW ALD COLLATERAL REQUIREMENTS FOR IN-SCOPE DIS**

The Federal Reserve announced the new ALD collateral requirements for “in-scope” institutions on November 28, 2017. The “in-scope” institutions will be required to provide additional loan fields in a new format in their ALD collateral reports. A detailed list of the additional loan fields, along with definitions, can be found in the [ALD Collateral Requirements Definitions \(Off-site\)](#). The following “in-scope” institutions are required to begin submitting the additional loan fields beginning in May 2019:

- All institutions that are underneath a Bank Holding Company (including a Financial Holding Company) or an Intermediate Holding Company with \$50B or more in total consolidated assets, which is defined as the average over the last four calendar quarters.
- All Foreign Banking Organizations.
- All other domestic institutions with \$50B or more in total consolidated assets, which is defined as the average over the last four calendar quarters.

If your institution becomes “in-scope”, the Federal Reserve will contact you at that time to inform you of the need to comply with the new requirements. Questions regarding the new ALD collateral report submission requirements can be submitted [here](#). *For further detail, see related [Frequently Asked Questions](#).* Institutions considered “in-scope” must provide a collateral schedule in electronic form monthly (every 30 days) or more frequently as deemed necessary by the Federal Reserve Bank of Richmond.

#### **COLLATERAL REPORTING REQUIREMENTS FOR NON-SCOPE DIS**

A depository institution that does not meet the requirements of an “in-scope” institution must also provide a collateral schedule in electronic form monthly (every 30 days) or more frequently, as deemed necessary by the Federal Reserve Bank of Richmond. A separate file or tab within a file is required for each loan type. In general, the following information is required for each loan pledged:

- Loan Number
- Borrower Name
- Internal Risk Rating (except for consumer loans)
- Original Par Amount
- Current Outstanding Balance
- Maturity Date
- Interest Rate
- Interest Method (Fixed/Floating)
- Interest Paid Through Date
- Interest Next Due Date
- Interest Payment Frequency
- Principal Paid Through Date
- Principal Next Due Date
- Principal Payment Frequency
- Loan Structure

Collateral revaluation files must be transmitted securely using one of the three approved methods. The Federal Reserve System has approved the following three options:

- ***FRSecure Message Center (ZixMail)***
  - Enables depository institutions to send their ALD files and accompanying transmittals to their Federal Reserve Bank in an encrypted format
  - Free of charge, quick and easy to use (typically a few minutes to setup)
  - Accommodates file size of up to 40MB
- ***Mandatory Transport Layer Security (MTLS)***
  - Provides point-to-point encryption of all emails between the Federal Reserve Bank and a depository institution
  - A nominal time investment (typically two weeks) by technical staff at the depository institution is necessary to establish and test the connection. There is no other cost associated with this option.
  - Accommodates file size of up to 45MB
- ***Intralinks Exchange Platform***
  - An externally-hosted, cloud based service which allows interchange of documents and files within an online “exchange.”
  - Normally a few days to setup, and free of charge
  - Accommodates file size of up to 2GB

Monthly (every 30 days) collateral schedules should be submitted by an individual on the OC10 authorization list to [discountwindow@rich.frb.org](mailto:discountwindow@rich.frb.org). Interim collateral reporting is required any time the aggregate outstanding principal balance of the pledged loans declines by 10 percent or more between reporting dates. For more information regarding the collateral reporting and encryption method requirements, please contact the discount window collateral staff.

## ANNUAL AUDIT CERTIFICATION

The Federal Reserve Bank of Richmond requires depository institutions to provide periodic audits of the institution's participation in the BIC program and compliance with its requirements. These audits can be performed by the institution's internal audit, individuals not involved in the day to day operations of the arrangement, or external audit. The results of the audit should be included on the next regularly scheduled BIC audit certification submission. The BIC certification form attests to the controls and other procedures in place to safeguard the pledged loans and related documentation. This audit certification is required initially upon establishment of the BIC arrangement and annually, thereafter. All institutions should complete and submit the certifications on an annual basis. The certification must be signed by someone authorized to submit OC-10 agreements, per the Borrowing Resolution. If an institution requires more than one authorized borrower, both must sign the certification. In addition, the internal/external auditor or appropriate director should sign the last section of the certification. It is the responsibility of the pledging institution to submit these certifications in a timely manner.

## PERIODIC ON-SITE REVIEW OF BIC COLLATERAL

All pledges of loans in a BIC arrangement will be subject to a periodic review of loan documentation and controls. In some instances, a review of the credit worthiness of the loans may be conducted. The frequency of the review will be at the discretion of the Federal Reserve Bank of Richmond and will generally depend on the financial condition of the pledging institution and any documentation or control issues previously identified.

Generally, the reviews will be conducted on the premises of the pledging institution although some portion of the review may be conducted remotely through the use of electronic document images or other requested information. Findings of the review will be formally documented in a letter to the institution. The depository institution will be expected to promptly correct any exceptions found or remove the problematic loans from the collateral pledge. Severe breaches in the BIC program requirements could result in termination from the BIC program or additional haircuts.

## TERMINATION OF A BIC ARRANGEMENT

Institutions who wish to voluntarily withdrawal from the BIC program may do so upon approval of the Federal Reserve Bank of Richmond. Written notice is required.

## CONTACT INFORMATION

Toll-free Phone Number: 800-526-2036

E-mail Address: [discountwindow@rich.frb.org](mailto:discountwindow@rich.frb.org)

General Information: [www.frbdiscountwindow.org](http://www.frbdiscountwindow.org)

Mailing Address: Federal Reserve Bank of Richmond  
P.O. Box 27622  
Richmond, VA 23261  
Attention: Credit Risk Management