

**FEDERAL RESERVE BANK OF CHICAGO  
BORROWER-IN-CUSTODY OF COLLATERAL PROGRAM  
(BIC) GUIDELINES**

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## 1. INTRODUCTION AND OVERVIEW OF THE DUE DILIGENCE PRINCIPLES

All collateral pledged to the Discount Window must be acceptable to the Reserve Bank and in an amount sufficient to secure the advance plus interest. Final acceptance decisions are made on a case-by-case basis. Institutions should maintain a pre-determined amount of collateral sufficient to ensure collateral is available for ongoing programs, such as the Seasonal Credit Program, or for contingency situations. A Borrower-In-Custody (BIC) arrangement allows depository institutions to retain possession or control of collateral, thereby avoiding the inconvenience and cost of transporting collateral and supporting documentation to the Reserve Bank.

Under the terms and conditions of [Operating Circular 10](#), the Reserve Bank will normally require a first priority perfected security interest in collateral pledged. Terms that are defined in Operating Circular 10 have the same meaning in these guidelines. Additional information on the BIC program may be obtained from the [Discount Window website](#).

Eligibility for the BIC Program is based on meeting all of the following criteria:

- CAMELS composite rating of "1" or "2" (Composite ratings of "3" may be eligible)
- "Adequately" or "Well" capitalized as evidenced by most recent capital ratios
- Foreign Banking Organizations and corresponding branches are in satisfactory condition
- Asset quality is satisfactory
- Acceptable management oversight of credit and controls, including loan review and rating system

(Please check with the [Reserve Bank](#) about the eligibility of holding certain types of collateral in a BIC arrangement for securing obligations in connection with Treasury programs under [Operating Circular 9](#).)

### LOAN TYPES INELIGIBLE FOR PLEDGE

Unless otherwise specified by the Reserve Bank, loans with any of the following characteristics are not acceptable:

- Consumer loans, student loans, residential real estate mortgage loans, or credit card receivables more than **60** days past due.
- Commercial, commercial real estate, construction, agricultural or raw land loans more than **30** days past due.
- Loans to affiliates of the pledging institution, including direct or indirect subsidiaries and consumer finance companies.
- Insider loans (i.e., loans to a director, officer or bank employee).
- Loans collateralized by bank stock or stock of an affiliate of the pledging institution.
- Loans originated by an affiliate or subsidiary of the pledging institution are generally considered ineligible collateral. Please contact the [Reserve Bank](#) for more information on the supplementary documentation that must be completed and approved by legal counsel in order to pledge affiliate or subsidiary loans.
- Loans issued to an Employee Stock Option Plan (ESOP) or secured by ESOP stock.

- Loans that are subject to a property right that would adversely affect the Reserve Bank’s ability to obtain a perfected, first priority security interest in the loans unless the prior lien holder expressly subordinated its interest to the Federal Reserve Bank of Chicago.
- Loans to foreign or domestic entities that are not denominated in U.S. dollars.
- Loans secured by deposit liabilities of the pledging institution, including deposit accounts and overdraft lines of credit.
- Loans that have assignability or transferability restrictions unless the loans explicitly allow the lender to pledge the loans to a Reserve Bank.
- The guaranteed portion of government guaranteed loans, including Small Business Administration loans, will not be included in the value of a loan unless the pledging institution warrants that the loans contain no assignability restrictions.
- All off-balance sheet commitments (such as commercial letters of credit, standby letters of credit, loan commitments, futures/forwards/standby contracts for securities, and foreign exchange commitments).
- Loans that do not meet a minimum standard of quality based on the Reserve Bank’s review of the depository institution’s internal risk ratings, including but not limited to:
  - Loans classified by internal or external auditors or by a supervisory agency as below pass grade, i.e., special mention, substandard, doubtful, or loss
  - Loans with the characteristics of or classified as “watch” or “management attention”
- Loans to or guaranteed by foreign obligors, which are defined as loans to individuals domiciled outside of the U.S. or to entities incorporated or domiciled outside of the U.S. or whose principal place of business or main office is outside the U.S.

**NOTE: The Reserve Bank reserves the right to amend collateral requirements or terminate participation in the BIC Program for any reason for any institution at any time. This guidance does not supersede or replace any requirements contained in specific Reserve Bank agreements, policies, or procedures.**

## **2. APPLYING FOR THE BIC PROGRAM**

### **INITIAL REVIEW AND APPROVAL**

Institutions interested in the BIC program will be asked to complete a collateral application attesting to their internal controls and the location of their loans. Applicants are also required to provide a list of the institution's internal loan grade definitions and a copy of their most recent internal or external audit results pertaining to the loan types they wish to pledge.

Approval for the program is subject to the Reserve Bank’s evaluation of the financial condition of the pledging institution and responses to the collateral application. An on-site inspection of the loan documents and controls of the collateral may also be required prior to acceptance into the program.

## LEGAL DOCUMENTS

To qualify for the BIC program, an institution must complete the required agreements in the Federal Reserve's Lending Agreement, [Operating Circular 10](#), and any other documents as required by the Reserve Bank, including:

- *Letter of Agreement*
- *Authorizing Resolution for Borrowers*
- *Official OC-10 Authorization List*
- *Form of Certificate*

Operating Circular 10 empowers the Reserve Bank to file a financing statement. The Form of Certificate will provide the Reserve Bank with the information needed to make an effective UCC-1 financing statement filing against the institution.

If an institution maintains collateral with an affiliate service provider or other third-party custodian, the pledging institution and the applicable affiliate or custodian must execute the Form of [Agreement for Third-Party Custodian to Hold Collateral](#) (within Appendix 5 of Operating Circular 10). Please contact the Reserve Bank for more information.

## PERFECTION OF SECURITY INTEREST

The Reserve Bank's UCC-1 Financing Statement normally contains the following language:

*All accounts, chattel paper (including electronic chattel paper), inventory, equipment, instruments, investment property, general intangibles (including, but not limited to, loans and other extensions of credit not evidenced by a promissory note, payment intangibles, and participating interests in loans), and all other documents or agreements that evidence, support, or document debts or obligations to Debtor, now owned or hereafter acquired, that are identified, from time to time, by Debtor to Secured Party (as reflected on Secured Party's books and records) in writing or by electronic means as collateral securing the obligations of Debtor to Secured Party under Federal law or regulation or a written agreement between the parties, and all proceeds, distributions, guarantees, letters of credit, surety bonds and other supporting obligations pertaining to the foregoing, and all proceeds, distributions, amendments and substitutions thereof. Secured Party's security interest in all such collateral covers all present and future liabilities of Debtor to Secured Party.*

It may be necessary take other actions, such as obtaining inter-creditor releases or subordination agreements, to perfect the Reserve Bank's security interest in the collateral. Value will not be assigned to the collateral until such arrangements are finalized.

## **COLLATERAL APPLICATION**

A BIC collateral application must be completed prior to acceptance in the BIC Program. Information provided in the collateral application must include: a brief description of the physical location of the collateral and related documentation; the protective measures taken to ensure the safety of the collateral; and various other matters pertaining to the BIC arrangement.

The BIC collateral [application](#) can be downloaded from the [Discount Window website](#). *If your institution wishes to pledge electronic collateral,<sup>1</sup> please reach out to the BIC coordinator; additional information is required prior to acceptance of electronic collateral.*

An authorized individual (as authorized in the Authorizing Resolution for Borrowers within Appendix 3 of [Operating Circular No. 10](#)) must sign the completed application. The signature attests to the completeness and accuracy of the institution's responses contained within the collateral application.

## **ON-SITE INSPECTION**

On-site inspections are a requirement of the BIC program. Reserve Bank staff will review the premises where the collateral is stored, confirm that the collateral is clearly and properly identified as pledged to the Federal Reserve Bank of Chicago, inspect a sample of pledged loans, and assess the controls and other procedures used to protect the collateral. **All pledged loan files must contain original documents (notes, mortgages, security agreements, etc.) unless prior approval has been obtained.** An on-site inspection may be required prior to acceptance in the program.

## **ONGOING REQUIREMENTS/COLLATERAL REPORTING**

On a monthly basis, a listing of all loans pledged to the Reserve Bank must be submitted along with a [Cover Letter](#), signed or emailed by an authorized borrower from the institution. This email must be sent via an FRS approved secure encryption method; such as through the [Federal Reserve Secure Message Center](#), which is free of charge. The Reserve Bank must receive this information by the assigned monthly reporting date or the value assigned to the collateral will be reduced to zero. The Cover Letter and monthly pledge listing update the loans being pledged along with their corresponding outstanding balances. The total number of pledged loans and the sum of the outstanding balances of pledged loans on the listing must match the totals stated on the Cover Letter. **The Reserve Bank reserves the right to request an updated pledge listing at any time between reporting dates.**

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<sup>1</sup> "Electronic collateral" or "e-collateral" refers to pledged assets originally in tangible form that have been converted to electronic copies and the original paper copies have been intentionally destroyed by the pledger; and a pledged asset that originated in electronic form.

The monthly pledge listing must contain the following [information for loan collateral](#):

- Pledging institution's name
- Name and account number of the obligor
- Original principal balance
- Current outstanding principal balance
- Maturity date
- Paid through or next payment due date (payment frequency also required if reporting paid through date)
- Current interest rate
- Internal loan grade (if applicable)
- Pledging institution branch or location code if loan documentation is maintained at multiple locations
- Pledge code (if applicable)
- Physical address or legal description of collateral if loan is secured by real estate
- Total number of loans pledged and the current total outstanding principal balance for each loan type
- Interest rate method (the words "fixed" or "floating" must be used)<sup>2</sup>
- Any additional fields requested by the Reserve Bank

The Reserve Bank may request other information needed to properly value the loans or to perfect interest in the collateral.

The monthly pledge listing must be submitted as a Microsoft Excel document. A [pledge listing template](#) is available to assist you with the formatting. It is very important to **avoid changing the format** of these electronic pledge listings unless otherwise instructed. If a consistent reporting format is not maintained, we cannot process the pledge listing in a timely manner. If the file format changes between reporting periods, the pledged loan listing may need to be re-processed or have a reduced margin applied until changes can be made to support the revised reporting format. The aggregate outstanding principal balance of pledged loans must be monitored between reporting periods at least weekly to ensure that it does not decrease by more than 10%. If the overall value of the pledged loans decreases by 10% or more between reporting periods, the pledging institution is required to submit a new updated pledge listing immediately. For example, if the aggregate outstanding principal balance of the most recently submitted monthly pledge is \$1.0 Million, a new pledge listing would need to be submitted immediately if the balance of that pledge falls to \$900 thousand or below at any point prior to the next required reporting date. Typical reasons for declines in a monthly pledge consist of payments, removal of past due or delinquent loans from pledge (see Ineligible Loan Types section of these guidelines), risk rating changes, and maturities. Loans that were not on the most recent pledge listing may **not** be used to offset these declines. An updated pledge listing must be submitted prior to pledging additional loans. As a general rule, weekly monitoring of collateral levels should be sufficient to fulfill this requirement.

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<sup>2</sup> The interest rate method field is optional for all depository institutions with less than \$10bn in assets. However, the inclusion of the field does affect the collateral value the loan will receive. Visit the Discount Window Website for more information.

### 3. TYPES OF COLLATERAL ELIGIBLE FOR PLEDGE

All loans should be classified and coded according to the Reserve Bank's collateral and margin table categories, which are based on loan types in the pledging institution's Report of Condition and Income ("Call Report"). Collateral that exists only in electronic form may not be acceptable for collateral pledged through the BIC program<sup>3</sup>. In addition to the documentation outlined below, the Reserve Bank also requires that other documents used to secure a pledged loan be maintained and made available for on-site inspections. If you have specific questions on unique loan documents, please contact the Reserve Bank.

**Trust Arrangements:** If the underlying collateral is held in a trust, a copy of the trust agreement and/or trust certification must be made available, as well as a document evidencing that the beneficiary of the trust has signed the appropriate documentation.

**Cross-Collateralization:** All loans in a cross-collateralized borrowing relationship should be pledged to the Reserve Bank. If all loans in a cross-collateralized relationship are not pledged to the Reserve Bank, the institution must ensure that those loans are not pledged to another party (e.g., the FHLB). In addition, all loans must meet BIC eligibility requirements for pledge.

**Loan Participations:** Loan participations are eligible to be pledged as collateral under a BIC arrangement. Loan participations originated or purchased by the pledging institution are acceptable; however, only the retained or purchased loan balance may be pledged.

Loan participations with assignability restrictions, including loans that restrict the pledge, sale, or assignment without permission from the other party, are not acceptable for pledge. Please contact the Reserve Bank for more information.

#### *REQUIRED DOCUMENTS*

Loan participation documents establishing the institution's interest in the underlying loan must be in the files in order for the loan participation to be acceptable as collateral. Originals are preferred; however, copies of the applicable collateral and loan documentation are acceptable. Third-party certifications (i.e., Recorder of Deeds) are acceptable on an exception basis only. If any of the required documents listed below are missing, the loan participation should not be pledged to the Reserve Bank.

**Participation Certificate and Agreement.** A signed participation certificate executed by the selling and purchasing institution detailing the terms of the sale is required.

**Applicable Collateral and Loan Documentation.** Please see the individual loan categories for additional loan documentation requirements relating to each loan type. Additional documentation requirements are detailed in the commercial and commercial real estate sections below.

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<sup>3</sup> For more information on pledging collateral with electronic signatures, please consult the Collateral [FAQs](#) on the Discount Window website.



## **COMMERCIAL LOANS**

For purposes of the Federal Reserve Bank of Chicago's BIC program, promissory notes evidencing loans made to customers for commercial and industrial purposes are eligible to be pledged as collateral.

Loans that are 30 days or more delinquent, or are adversely classified, are not acceptable for pledge.

Floor plan loans are also acceptable for pledge. Please contact the Reserve Bank for more information on floor plan requirements.

### *REQUIRED DOCUMENTS*

The following commercial loan documents must be in the loan files in order for the loan to be acceptable as collateral. **Originals are required.** Copies certified by the pledging institution are not acceptable. Third-party certifications (i.e., Recorder of Deeds) are acceptable on an exception basis only. If any of the required documents are missing, the associated loan cannot be pledged to the Reserve Bank.

**Customer Note.** A signed note is required. The general data elements that must be included within the note are: obligor's name; origination and maturity dates; original loan amount; and interest rate (including the index and spread if variable rate note).

**Security Agreement and Evidence of Lien Placement.** A signed security agreement containing a collateral description is required if the loan is secured. Evidence of lien placement on the collateral (i.e., UCC filing, auto title, assignment of life insurance, etc.) is also required.

**Evidence of Insurance.** Proof of current insurance covering the collateral and/or the current outstanding principal balance of the loan is required. Documented procedures on insurance tracking may be accepted in lieu of evidence of current insurance.

**Credit Agreement.** If certain data elements such as the rate, maturity, or amount are not contained in the note but are referenced in a separate credit agreement, the credit agreement must be present in the loan file. If this information is held in a separate credit file, this file must also be labeled as pledged to the Reserve Bank.

## **AGRICULTURAL LOANS**

For purposes of the Federal Reserve Bank of Chicago's BIC program, promissory notes evidencing loans made to customers for the purpose of financing agricultural production are eligible to be pledged as collateral.

Loans that are 30 days or more delinquent, or are adversely classified, are not acceptable for pledge.

#### *REQUIRED DOCUMENTS*

The following agricultural loan documents must be in the loan files in order for the loan to be acceptable as collateral. **Originals are required.** Copies certified by the pledging institution are not acceptable. Third-party certifications (i.e., Recorder of Deeds) are acceptable on an exception basis only. If any of the required documents are missing, the associated loan cannot be pledged to the Reserve Bank.

**Customer Note.** A signed note is required. The general data elements that must be included within the note are: obligor's name; origination and maturity dates; original loan amount; and interest rate (including the index and spread if variable rate note).

**Security Agreement and Evidence of Lien Placement.** A signed security agreement containing a collateral description is required if the loan is secured. Evidence of lien placement on the collateral (i.e., UCC filing, auto title, assignment of life insurance, etc.) is also required.

**Evidence of Insurance.** Proof of current insurance covering the collateral and/or the current outstanding principal balance of the loan is required. Documented procedures on insurance tracking may be accepted in lieu of evidence of current insurance.

**Credit Agreement.** If certain data elements such as the rate, maturity, or amount are not contained in the note but are referenced in a separate credit agreement, the credit agreement must be present in the loan file. If this information is held in a separate credit file, this file must also be labeled as pledged to the Reserve Bank

#### **COMMERCIAL REAL ESTATE LOANS AND AGRICULTURAL LOANS SECURED BY FARMLAND**

For purposes of the Federal Reserve Bank of Chicago's BIC program, promissory notes evidencing loans made to customers secured by nonfarm nonresidential properties, including business and industrial properties, hotels, motels, churches, hospitals, educational and charitable institutions, dormitories, clubs, lodges, association buildings, "homes" for aged persons and orphans, golf courses, recreational facilities, and similar properties, and, loans secured by farmland and improvements thereon and known to be used or usable for agricultural purposes, are eligible as collateral.

Loans that are 30 days or more delinquent, or adversely classified, are not acceptable for pledge. Existing leases should be noted as secured in the credit file if the property produces income. If the property was recently completed, the institution should have a copy of the certificate of completion and an endorsement to the title policy indicating that there are no mechanic liens.

#### *REQUIRED DOCUMENTS*

The following commercial real estate loan documents must be in the files in order for the loan to be acceptable as collateral. **Originals are required.** Copies certified by the pledging institution are not acceptable. Third-party certifications (i.e., Recorder of Deeds) are acceptable on an exception basis only. If any of the required documents are missing, the associated loan should not be pledged to the Reserve Bank.

**Customer Note.** A signed note that contains an original loan amount equal to or greater than the current outstanding principal balance shown on the monthly pledge listing is required.

**Security Agreement.** If certain data elements such as the rate, maturity, or amount are not contained in the note but are referenced in a separate security agreement, the security agreement must be present in the collateral loan file. If this agreement is held in a separate credit loan file, this file must also be labeled as pledged to the Reserve Bank.

**Mortgage Agreement or Deed of Trust.** A signed, properly recorded mortgage or deed of trust is required.

**Evidence of Title Insurance.** A commitment is not acceptable. Please contact the Reserve Bank to discuss alternate forms of title insurance such as a Torrens Certificate or Abstract of Title.

**Evidence of Appraisal.** The appraisal must be completed by a licensed appraiser, current, and should be for an amount equal to or greater than the current outstanding principal balance. Copies are acceptable.

**Evidence of Hazard Insurance.** The amount of property insurance should be greater than or equal to the assessed value of the structure on the property (or the current outstanding principal balance of the loan, if greater than the assessed value) and must be current. Documented procedures on insurance tracking may be accepted in lieu of evidence of current insurance.

## **CONSTRUCTION LOANS**

For purposes of the Federal Reserve Bank of Chicago's BIC program, an institution should report construction loans to include loans in applicable Call Report categories for both residential and commercial construction, land development, and other land loans.

Loans with a construction term greater than two years are not acceptable for pledge. One renewal period, for up to two additional years, is permitted on construction loans. Loans that are 30 days or more delinquent, or adversely classified, are not acceptable for pledge.

### *REQUIRED DOCUMENTS*

The following construction loan documents must be in the files in order for the loan to be acceptable as collateral. **Originals are required.** Copies certified by the pledging institution are not acceptable. Third-party certifications (i.e., Recorder of Deeds) are acceptable on an exception basis only. If any of the required documents are missing, the associated loan should not be pledged to the Reserve Bank.

**Customer Note.** A signed note that contains an original loan amount equal to or greater than the current outstanding principal balance shown on the monthly pledge listing is required.

**Construction Loan Agreement.** This agreement must outline the cost and terms of construction.

**Construction Mortgage.** A signed, properly recorded mortgage or trust deed is required.  
**Construction Title Insurance or Title Commitment.** Please contact the Reserve Bank to discuss the acceptance of alternate forms of title insurance.

**Evidence of Appraisal (projected value).** The appraisal must be completed by a licensed appraiser and the projected value must be for an amount equal to or greater than the current outstanding principal balance. Appraisals completed in conjunction with draw disbursement requests must also be present in the file. Copies are acceptable.

**Evidence of Builders Risk Insurance.** Evidence that the mortgaged property is insured is required and must be current. Documented procedures on insurance tracking may be accepted in lieu of evidence of current insurance. Copies are acceptable.

### **RAW LAND LOANS**

For purposes of the Federal Reserve Bank of Chicago's BIC program, raw land loans are defined as those residential or commercial loans secured by undeveloped land or land that is not being actively developed. Raw land loans should not be secured by income producing properties (i.e., golf courses, parking lots, etc.).

Loans that are 30 days or more delinquent, or adversely classified, are not acceptable for pledge.

#### *REQUIRED DOCUMENTS*

The following loan documents must be in the files in order for the loan to be acceptable as collateral. **Originals are required.** Copies certified by the pledging institution are not acceptable. Third-party certifications (i.e., Recorder of Deeds) are acceptable on an exception basis only. If any of the required documents are missing, the associated loan should not be pledged to the Reserve Bank.

**Customer Note.** A signed note that contains an original loan amount equal to or greater than the current outstanding principal balance shown on the monthly pledge listing is required.

**Mortgage Agreement or Deed of Trust.** An original, signed, properly recorded mortgage or deed of trust is required.

**Evidence of Title Insurance.** A title commitment is not acceptable. The insurance should be greater than or equal to the outstanding balance of the loan. Please contact the Reserve Bank to discuss the acceptance of alternate forms of title insurance, such as a Torrens Certificate or Abstract of Title.

**Evidence of Appraisal.** The appraisal must be completed by a licensed appraiser, current, and should be for an amount equal to or greater than the current outstanding principal balance. Copies are acceptable.

## **CONSUMER LOANS**

For purposes of the Federal Reserve Bank of Chicago's BIC program, promissory notes evidencing loans made to customers for household, family and other personal expenditures are eligible to be pledged as collateral.

Loans that are 60 days or more delinquent, or adversely classified, are not acceptable for pledge. Third-party certifications (i.e., Recorder of Deeds) are acceptable on an exception basis only. If any of the required documents are missing, the associated loan should not be pledged to the Reserve Bank.

### *REQUIRED DOCUMENTS*

The following consumer loan documents must be in the files in order for the loan to be acceptable as collateral. **Originals are required.** Copies certified by the pledging institution are generally not acceptable.

**Customer Note.** A signed note that contains an original loan amount equal to or greater than the current outstanding principal balance shown on the monthly pledge listing is required.

**Other Documentation.** If the loan is secured, a security agreement (i.e., auto title, marine title, etc.) must be included and available for review.

**Evidence of Current Insurance.** Proof of current insurance covering the collateral and/or the current outstanding principal balance of the loan is required. Documented procedures on insurance tracking may be accepted in lieu of evidence of current insurance.

## **RESIDENTIAL REAL ESTATE MORTGAGE LOANS**

For purposes of the Federal Reserve Bank of Chicago's BIC program, promissory notes evidencing closed-end loans made to customers secured by first or second liens on 1-4 family residential properties are eligible to be pledged as collateral.

Residential real estate mortgage loans that are 60 days or more delinquent, or adversely classified, are not acceptable for pledge.

### *REQUIRED DOCUMENTS*

The following mortgage loan documents must be in the files in order for the loan to be acceptable as collateral. **Originals are required.** Copies certified by the pledging institution are not acceptable. Third-party certifications (i.e., Recorder of Deeds) are acceptable on an exception basis only. If any of the required documents are missing, the associated loan should not be pledged to the Reserve Bank.

**Mortgage Note.** A signed note that contains an original loan amount equal to that shown on the mortgage, and equal to or greater than the current outstanding principal balance shown on the monthly pledge listing is required.

**Mortgage Agreement or Deed of Trust.** A signed, properly recorded mortgage or deed of trust is required.

**Evidence of Title Insurance.** A commitment for title insurance is not acceptable. Please contact the Reserve Bank to discuss the acceptance of alternate forms of title insurance such as a Torrens Certificate or Abstract of Title.

**Evidence of Appraisal.** The appraisal must be completed by a licensed appraiser, current, and must be for an amount equal to or greater than the current outstanding principal balance. Copies are acceptable.

**Evidence of Insurance.** The amount of property insurance must be greater than or equal to the assessed value of the structure on the property (or the current outstanding principal balance of the loan, if greater than the assessed value) and the policy must be current. Documented procedures on insurance tracking may be accepted in lieu of evidence of current insurance.

### **HOME EQUITY LOANS AND LINES OF CREDIT**

For purposes of the Federal Reserve Bank of Chicago's BIC program, promissory notes evidencing open-end loans secured by first or second liens on 1-4 family residential properties are eligible to be pledged as collateral. Home equity loans and lines of credit that are 60 days or more delinquent, or adversely classified, are not acceptable for pledge.

#### *REQUIRED DOCUMENTS*

The following mortgage loan documents must be in the files in order for the loan to be acceptable as collateral. **Originals are required.** Copies certified by the pledging institution are not acceptable. Third-party certifications (i.e., Recorder of Deeds) are acceptable on an exception basis only. If any of the required documents are missing, the associated loan should not be pledged to the Reserve Bank.

**Mortgage Note.** A signed note that contains an original loan amount equal to that shown on the mortgage, and equal to or greater than the current outstanding principal balance shown on the monthly pledge listing is required.

**Mortgage Agreement or Deed of Trust.** A signed, properly recorded mortgage or deed of trust is required.

**Evidence of Title Insurance or Title Search.** The search must indicate that the title is in the borrower's name, list the property address and/or legal description, and reflect the pledging institution as a lien holder.

**Evidence of Appraisal.** The appraisal must be completed by a licensed appraiser, current, and must be for an amount equal to or greater than the current outstanding principal balance. Copies are acceptable.

**Evidence of Insurance.** The amount of property insurance must be greater than or equal to the assessed value of the structure on the property (or the current outstanding principal balance of the loan, if greater than the assessed value) and the policy must be current. Documented procedures on insurance tracking may be accepted in lieu of evidence of current insurance.

## **STUDENT LOANS**

For purposes of the Federal Reserve Bank of Chicago's BIC program, student loans are eligible to be pledged as collateral. Loans that are in repayment, grace or in-school status are acceptable.

Loans in repayment status that are 60 days or more delinquent, in forbearance, in deferment, or adversely classified, are not acceptable for the BIC program. For those loans that were originated by another organization and sold to the pledging institution, the notes should be properly endorsed and assigned to the pledging institution. If the loans are held or managed by a third party, a Form of Agreement for Third Party Custodian to Hold Collateral and a Third Party Questionnaire will need to be executed. Please contact the Reserve Bank for more information.

### *REQUIRED DOCUMENTS*

The following student loan documents must be in the files in order for the loan to be acceptable as pledged collateral. **Originals are required.** Copies certified by the pledging institution are not acceptable. Third-party certifications (i.e., Recorder of Deeds) are acceptable on an exception basis only. If any of the required documents are missing, the associated loan should not be pledged to the Reserve Bank.

**Application.** A completed, signed application is required.

**Note.** A signed, original note that contains an original loan amount equal to or greater than the current outstanding principal balance shown on the monthly pledge listing is required.

**Guaranty.** The notice of guaranty must be included and available for review.

### **GOVERNMENT GUARANTEED LOANS:**

Loans guaranteed, in part or in whole by a U.S. government agency are acceptable for pledge. The pledging institution should report the guaranteed portion of the principal balance in the Reserve Bank category designated as "US Agency Guaranteed Loans." The remaining portion of the loan must be pledged according to the applicable Call Report loan type and corresponding Reserve Bank category.

The guarantee must be fully transferable to the Reserve Bank, as determined by the Reserve Bank. Generally, this category includes guarantees of the Small Business Administration, U.S. Department of Education, the Export Import Bank of the United States, and the Rural Housing Service are transferable.

Loans that are 30 days or more delinquent, or are adversely classified, are not acceptable for pledge.

### *REQUIRED DOCUMENTS*

The following government guaranteed documents must be in the loan files in order for the loan to be acceptable as collateral. **Originals are required.** Copies certified by the pledging institution are not acceptable. Third-party certifications (i.e., Recorder of Deeds) are acceptable on an

exception basis only. If any of the required documents are missing, the associated loan cannot be pledged to the Reserve Bank.

**Customer Note.** A signed note is required. The general data elements that must be included within the note are: obligor's name; origination and maturity dates; original loan amount; and interest rate (including the index and spread if variable rate note).

**Security Agreement and Evidence of Lien Placement.** A signed security agreement containing a collateral description is required if the loan is secured. Evidence of lien placement on the collateral (i.e., UCC filing, auto title, assignment of life insurance, etc.) is also required. The file should contain documentation establishing that the guarantee is fully transferable to the Reserve Bank.

**Evidence of Insurance.** Proof of current insurance covering the collateral and/or the current outstanding principal balance of the loan is required. Documented procedures on insurance tracking may be accepted in lieu of evidence of current insurance.

**Credit Agreement.** If certain data elements such as the rate, maturity, or amount are not contained in the note but are referenced in a separate credit agreement, the credit agreement must be present in the loan file. If this information is held in a separate credit file, this file must also be labeled as pledged to the Reserve Bank.

## 4. COLLATERAL CONTROLS

### COLLATERAL IDENTIFICATION

Collateral must be explicitly identified on the institution's books and records as pledged to the Reserve Bank. Electronic identification should be used when possible. This identification could include changing or amending general ledger codes or loan codes to note particular loans have been pledged to the Reserve Bank.

In addition, physical identification of pledged loans is required, such as the following:

- Labeling individual file folders that hold the original documents
- Labeling file cabinets that contain the documents and/or
- Posting a highly visible sign in the area where the pledged loans are located, with wording such as, "Some or all of these loans are pledged to the Federal Reserve Bank of Chicago."

### COLLATERAL VALUATION

Please see the [Discount Window and PSR Collateral Margins Table](#) for valuation information. The Individually Deposited Loans margin will be assigned, provided that the pledge listing and [Cover Letter](#) have been submitted within the required timeframe. If the pledge listing is not received by the assigned monthly reporting due date, the collateral will be valued to zero. These valuations are subject to change at any time without prior notice.



## **WITHDRAWALS**

Loans can be withdrawn from the collateral pledge at any time, including between reporting periods, as long as the withdrawn assets do not:

1. Have an aggregate value of more than 10 percent of the outstanding principal balance stated in the most recently submitted Cover Letter, or
2. Result in the level of collateral decreasing below the value of any outstanding obligations

Please contact the Reserve Bank if your institution needs to substitute loans or adjust asset levels between reporting periods.

## **ANNUAL REVIEW OF ELIGIBILITY**

On a regular basis, the Reserve Bank will complete a review of the financial condition of the pledging institution to verify ongoing eligibility for the program. Analysis will be based on the institution's CAMELS ratings, Prompt Corrective Action Designation (PCAD), capital levels and ratios, and any other relevant information available to the Reserve Bank, including but not limited to, examination reports. **The FRB may amend or terminate a participant's BIC arrangement at any time at the FRB's sole discretion.**

## **COLLATERAL RECERTIFICATION**

A BIC collateral recertification must be completed annually unless otherwise indicated by the Federal Reserve Bank of Chicago. Information provided in the collateral certification must include: a brief description of the physical location(s) of the collateral and related documentation; the protective measures taken to ensure the safety of the collateral; and any other matters pertaining to the BIC arrangement requested by the Reserve Bank. If an institution is pledging electronically originated loans, or loans that are stored in multiple locations, additional paperwork may be required. **The BIC collateral [recertification](#) can be downloaded from the [Discount Window website](#).**

An authorized individual (as authorized in the Authorizing Resolution for Borrowers within Appendix 3 of Operating Circular No. 10) must sign the completed certification.

## **ON-SITE INSPECTION**

Discount Window staff will perform a short, periodic on-site inspection of the pledged collateral to ensure that all of the loan documents are in proper order. The institution will be notified prior to the inspection. The length of the inspection (usually one to three days) and sample size is dependent on the size of the portfolio pledged to the Reserve Bank.

During the inspection, a sample of loans from the most recent monthly pledge listing will be reviewed. The institution will be asked to demonstrate that it is exercising appropriate control over the collateral. As a part of the inspection, the reviewer will ask questions regarding collateral safeguards and operational procedures. Also, copies of the latest internal audit reports relating to the pledged collateral, the delinquency report, and the internal risk rating matrix (if applicable) must be provided to the reviewer.

The sample of loans will be reviewed to verify that the notes are original, made payable to the institution show the institution as the lender on the notes, and that the notes are supported by applicable required documents.

In the case of mortgage loans, the institution must be shown as lender and mortgagee. If the institution is not shown as the lender and the mortgagee, there should be proper evidence of a transfer of the note and mortgage to the institution. The reviewer will also watch the BIC contact generate a sample monthly listing, and review the procedures for monitoring for a 10% decrease in the pledge. If your institution is pledging electronically originated loans, or destroys legal documentation, a review of electronic loan systems, scanning procedures, etc. will be required.

Following the inspection, findings are discussed with the official(s) responsible for the collateral as well as the institution's senior management. This discussion covers the results of the inspection, including any exceptions found and suggestions for improvement. After the visit, a letter confirming the results of the review will be sent to the officer(s) responsible for the pledge of the collateral). The types of findings and number of exceptions, including any legal issues relating to the pledge itself, will be taken into account to determine overall compliance with Borrower-In- Custody program guidelines and [Operating Circular No. 10](#). Should the review uncover severe breaches of the collateral arrangement in violation of the Borrower-in-Custody program guidelines or Operating Circular No. 10, participation in this program may be terminated.

#### **QUESTIONS OR COMMENTS**

Questions or comments related to participation in the BIC program may be directed to the Federal Reserve Bank of Chicago's Discount Window at (800) 380-3762 option 3 or via email at [collateral@chi.frb.org](mailto:collateral@chi.frb.org).