



Collateral Procedures

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Collateral Procedures

Collateral Procedures provide members and housing associates guidelines to identify, pledge, and maintain eligible collateral with the Bank enabling efficient access to the Bank's credit products. For the Bank's policies on credit and collateral, please see the [Member Products Policy](#) on our website.

The Bank grants or renews credit solely on a secured basis. A member or housing associate must execute one of the Bank-approved forms titled Advances, Pledge and Security Agreements (APSA) prior to the Bank granting credit, and all collateral pledged to the Bank must comply with the terms of such agreement. The Bank requires a member or housing associate to pledge and maintain sufficient eligible collateral to secure all extensions of credit (advances, letters of credit, accrued interest, delivery commitment fees, account overdrafts, prepayment fees, and member credit enhancement obligations) at all times.

The Bank supports the expansion of fair and equitable homeownership opportunities. To discourage predatory lending practices, which are inconsistent with such opportunities, and to protect the Bank from potential liabilities, the Bank has adopted an [Anti-Predatory Lending Policy](#) and a Statement on Subprime and Nontraditional Residential Mortgage Loans for residential mortgage related collateral. This Policy and Statement are contained within the [Member Products Policy](#); and may be amended from time to time.

To be considered eligible collateral, assets pledged to the Bank must comply with applicable laws, regulations, and policies, and must comply with eligibility requirements established by the Bank. Eligibility requirements are specified in instructions and checklists contained in the [Collateral Forms](#) on the Bank's website at www.fhlbdm.com.

Collateral staff can be contacted via email at advancecollateral@fhlbdm.com or by phone at 800-544-3452 extension 5408 for assistance in identifying and pledging eligible collateral.

The terms referenced in these procedures are defined in the attached Glossary. It is important that these Procedures be read using the Bank's definitions. The Collateral Procedures should also be read in conjunction with the Member Products Policy, collateral pledging forms, and eligibility checklists.



1. Advances, Pledge, and Security Agreements

The type of APSA executed by the member or housing associate can determine the types of collateral that can be pledged and the method and frequency of reporting required. The Bank in its sole discretion determines the appropriate form of APSA that each member or housing associate must execute based on the Bank's determination of the member's, housing associate's, or guarantor's creditworthiness.

1.1 Blanket Pledge Agreement

An APSA in which the member grants the Bank a security interest in all mortgage collateral, securities collateral, and other collateral held by the member to secure indebtedness to the Bank. Members under the Blanket APSA generally have the broadest access to collateral types and may report/assign loan collateral using streamlined reporting methods.

1.2 Specific Pledge Agreement

An APSA pursuant to which the member grants the Bank a security interest in specifically identified collateral to secure indebtedness to the Bank. Members under the Specific APSA may be limited to certain types of collateral and are required to periodically provide detailed listings of all collateral pledged.

1.3 Delivery Pledge Agreement

An APSA pursuant to which the member grants the Bank a security interest in specifically identified loans and/or securities. The member is required to deliver original loan documents to the Bank, or its custodial agent, and the securities to either the Bank or an approved custodian for safekeeping.

1.4 Housing Associate Agreement

An APSA whereby the housing associate grants the Bank a security interest in specifically identified collateral. The housing associate is required to deliver original loan documents and/or the securities collateral to the Bank, or its custodial agent, for safekeeping.



2. Eligible Collateral

All collateral pledged to the Bank must meet the eligibility requirements as specified in the eligibility checklists which can be found on the Bank's website at [Forms, Checklists, and Instructions](#). The Bank, from time to time, may establish additional eligibility criteria for various types of eligible collateral.

2.1 Eligible Member Collateral

The Bank may accept the following types of collateral secured by property located in the United States or its territories. Loans and securities not eligible to be pledged as collateral can be found in Section 2.4.

- A. Mortgage Loans – Fully disbursed whole first mortgage loans on improved (1-4 family and multi-family) residential real property,
- B. Privately issued mortgage-backed securities secured by first mortgage loans on 1-4 family residential properties excluding:
 - Securities that represent a share of only the interest payments or only the principal payments from the underlying mortgage loans;
 - Securities that represent a subordinate interest in the cash flows from the underlying mortgage loans;
 - Securities that represent an interest in any residual payments from the underlying pool of mortgage loans;
 - Residential private label securities issued on or after July 10, 2007 with an enforceable representation and warranty from the issuer that all loans contained in the security comply with Federal Financial Institutions Examination Council (FFIEC) guidance on subprime and nontraditional lending; and
 - Other securities that the Bank in its sole discretion deems ineligible.
- C. Agency Securities – Agency securities include:

Securities issued, insured, or guaranteed by the United States Government, or any agency thereof, including:

- Mortgage-backed securities issued or guaranteed by Freddie Mac, Fannie Mae, Ginnie Mae, or any other agency of the United States Government;
- Mortgages or other loans that are insured or guaranteed by the United



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States or any agency thereof, or otherwise is backed by the full faith and credit of the United States, and such insurance, guarantee or other backing is for the direct benefit of the holder of the mortgage or loan; and

- Securities backed by, or representing an equity interest in, mortgages or other loans referred to under privately issued mortgage-backed securities above.

D. Funds placed in Time Certificates of Deposit at the Bank

E. Other Real Estate Related Collateral¹

The Bank only accepts pledges of other real estate related collateral if the member has executed the Blanket APSA, subject to the following exceptions:

- The Bank may accept fully disbursed whole first mortgage commercial real estate loans from member's signing other APSAs if the member is rated "A" or higher by a nationally recognized statistical rating organization, the Bank reviews the loans prior to accepting the pledge, and the loans are delivered to the Bank, or its custodial agent; and
- Privately issued mortgage-backed securities rated "A" or higher, subject to the exclusions for privately issued mortgage-backed securities in Section 2.1.B.

Eligible other real estate-related collateral may include, but is not limited to:

- Second mortgage loans on 1-4 family residential property, including home equity loans, and home equity lines of credit (HELOC);
- Fully disbursed whole first mortgage loans on commercial real estate loans;
- Fully disbursed whole first mortgage loans on agricultural real estate;
- Securities representing a whole interest in such loans subject to the exclusions for privately issued mortgage-backed securities in Section 2.1.B; and
- Mortgage loan participations in fully disbursed first mortgage loans secured by either 1-4 family, multi-family, commercial, or agricultural real estate.

¹ A member's combined capacity to pledge "Other Real Estate Related Collateral" and "CFI Collateral" excluding second mortgage loans and home equity lines of credit on 1-4 family property is limited in aggregate to 300% of the member's (or applicable guarantor's) equity capital.



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- Construction loans, no more than 30 days delinquent, for non-speculative (permanent take-out required) 1-4 family residential properties.

F. Community Financial Institution (CFI) Collateral

The Bank only accepts pledges of CFI Collateral from members meeting the CFI definition and who have executed the Blanket APSA. Insurance company and credit union members do not meet the CFI definition.

Eligible CFI collateral includes:

- Business Loans;
- Agri-Business Loans; and
- Securities representing a whole interest in such loans subject to the exclusions for privately issued mortgage-backed securities in Section 2.1.B.

If the Bank deems itself to be under-collateralized and all eligible collateral listed above has been pledged to the Bank, the Bank may consider accepting other property to secure existing credit, provided such property has a readily ascertainable value and the Bank can perfect a security interest in such property.

The Bank in its sole discretion may restrict the types of eligible collateral acceptable to the Bank as security for credit exposures based upon the creditworthiness or operations of the borrower, the quality of the collateral, or other reasonable criteria.

2.2 Eligible Member Affiliate Collateral

Assets held by an Affiliate of a member that are eligible as collateral may be used to secure credit to that member under the following circumstances.

- The collateral is pledged to secure either the member's obligation to repay the Bank or a surety or other agreement has been executed under which the Affiliate has assumed, along with the member, a primary obligation to repay the Bank.
- The Bank obtains and maintains a legally enforceable security interest in which the Bank's legal rights and privileges with respect to the collateral are functionally equivalent in all material aspects to those that the Bank would possess if the member were to pledge the same collateral directly, and such functional equivalence is supported by documentation the Bank deems adequate.



2.3 Housing Associate Collateral

Housing Associates are required to deliver to the Bank, or its custodial agent, sufficient eligible collateral to secure total extensions of credit from the Bank. The Bank will accept as collateral the following types of securities and mortgages that are owned by the housing associate free and clear of any liens, encumbrances, or other interests.

- FHA mortgages and Ginnie Mae securities backed by FHA mortgages; and
- If the housing associate is a State Housing Finance Agency (SHFA) using advances or standby letters of credit to benefit low- and moderate-income families as defined by §§142 (d) and 143 (f) of the Internal Revenue Code, the SHFA may also pledge mortgage loans on 1-4 family or multi-family residential property that have a readily ascertainable value, can be reliably discounted to account for liquidation and other risks, and can be liquidated in due course and as to which the Bank can perfect a security interest. The SHFA must certify that the funds will be used in accordance with Section 10 (b) of the Bank Act and must describe the households, including income levels, to be served.

2.4 Collateral Restrictions

A. Ineligible loan collateral includes, but is not limited to:

- Residential mortgage loans originated or acquired on or after July 10, 2007 not in compliance with interagency guidance related to subprime and nontraditional lending (see Sections 8 and 9 for anti-predatory, subprime, and nontraditional collateral requirements);
- Loans to directors, employees, attorneys, or agents of the Bank, member, or housing associate;
- Closed-end loans lacking specified principal and interest payments to amortize the loan;
- Loans with or allowing capitalized interest; and
- Loans past-due a certain number of days, on nonaccrual, or in foreclosure (depending on the collateral class).

B. Ineligible privately issued securities include, but are not limited to:

- Securities that represent a share of only interest payments or only the



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principal payments from the underlying mortgage loans;

- Securities that represent a subordinate interest in cash flows from the underlying mortgage loans;
- Securities that represent an interest in any residual payments from the underlying pool of mortgage loans;
- Residential private label securities issued on or after July 10, 2007 unless the issuer provides an enforceable representation and warranty that all loans contained in the security comply with interagency guidance (see Section 8 and Section 9 for anti-predatory, subprime, and nontraditional collateral requirements); and
- Other securities that the Bank in its sole discretion deems to be ineligible.

Additional restrictions related to a particular collateral class are contained in the specific eligibility checklist which can be found on the Bank's Collateral Forms page under Forms, Checklists, and Instructions. From time to time, the Bank may establish new or modify existing eligibility criteria for various types of eligible collateral.

C. The Bank, at its sole discretion, may:

- Determine which form of advances, pledge and security agreement a member or housing associate may execute;
- Restrict a member's or housing associate's use of certain categories of collateral;
- Limit the maximum unpaid principal balance of any commercial real estate loan secured by a single property to \$50,000,000;
- Require the member to maintain the original promissory note executed by the borrower;
- Prescribe the manner in which members or housing associates report collateral;
- Require a member or housing associate to list or deliver some or all collateral pledged to the Bank, or its custodial agent;
- Require a member or housing associate to pledge collateral in a prescribed order based upon the Bank's Credit Risk Subcommittee determination of marketability and liquidity of the collateral or of the member's or housing associate's creditworthiness; and/or
- File UCC-1 financing statements on collateral.



2.5 Collateral Maintenance Levels

The discounts or haircuts, known as collateral maintenance levels (CMLs) applied to the unpaid principal balance or market value, if available, for each type of eligible collateral can be found at [Collateral Maintenance Levels](#). The amount of the discount will vary based upon the APSA executed by the member or housing associate. All members pledging new loan portfolio collateral are assigned the medium CML. The CML may change during a Member Collateral Verification (MCV) or due to a change in the member's overall financial condition and/or collateral delivery status.

Members who pledge commercial real estate must provide a monthly listing of commercial real estate mortgage (CREM) collateral, which includes the loans' unpaid principal balances and other loan level detail that are necessary to calculate the CML. The Bank shall calculate a CML at least semiannually, on dates determined by the Bank, for all CREM pledged with a detailed listing by using a model that is either: (1) developed, maintained or used by a nationally recognized statistical ratings organization, its risk management affiliate or other comparable service providers, or (2) developed by or for the Bank that is validated by a nationally recognized statistical ratings organization, its risk management affiliate or other comparable service providers on a periodic basis.

The Bank will add up to 30 percentage points to the model output to determine the Member's CML for CREM listed. Members providing new CREM during the interim period between model CML calculations will be assessed the medium CML for commercial real estate found at the [Collateral Maintenance Levels](#).

If the Bank's Credit Risk Subcommittee determines that there has been a material adverse change in a member's, housing associate's, or guarantor's condition, the Committee may approve changing the CMLs to a level appropriate to secure all extensions of credit owed by the member or housing associate.

3. Pledging Loans as Collateral

For assistance in identifying and pledging loans as collateral, contact the Collateral Staff at advancecollateral@fhlbdm.com or 800-544-3452 extension 5408.

3.1. Blanket Pledge Status

If a member has executed a Blanket APSA and the Bank has not otherwise notified the Member that it must list or deliver qualifying loans to the Bank, or its custodial agent, the member must submit Borrowing Base Certificates (BBCs) to the Bank for each type of qualifying loan category that it elects to report.



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A. New Pledges

To begin the pledge of new collateral categories, the BBC forms, instructions, and eligibility checklists can be found on the Bank's website under the Products & Services drop down menu, [Collateral Forms](#). The eligibility checklists assist members and housing associates in identifying loans eligible for pledging as collateral.

Members must submit the BBC to the Bank prior to its initial borrowing and no later than 45 days after the end of each subsequent calendar quarter. Members may and should submit these forms on a more frequent basis when conditions warrant (for example, following the acquisition or sale of a loan portfolio or when pledging loans held for sale).

B. Unpledging BBC Loan Categories

Members wishing to discontinue pledging loans formerly assigned with a BBC form must request removal of the loan class in writing. An email addressed to the Collateral Department and sent to the following address: advancecollateral@fhlbdm.com, requesting the removal of the loan class or classes will be processed in a timely manner. Contact the Collateral Department by phone if email is not an option.

3.2. Specific Listing Status

Members that have executed the Specific APSA, members that are voluntarily listing loans under the Blanket APSA, and housing associates are required to provide loan-level information for all loan collateral pledged. Based upon the quality of the collateral, the Bank may, at its sole discretion, grant lower CMLs on specifically listed loans. The listed loans must meet the same criteria as those stated on the BBC forms and eligibility checklists for that loan class.

The Bank requires all members or housing associates listing loans to assign the loans to the Bank and to provide periodic updates of the loan's status. Listed loans are subject to monthly collateral fees detailed in the Bank's [Collateral Fee Schedule](#).

A. New Pledges of Listed Loans

Members or housing associates assign loans to the Bank by completing the [Confirmatory Assignment of Mortgages \(Form C-220\)](#) and [Schedule of](#)



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[Listed Loans \(Form C-221\)](#). Instructions for completing Form C-221 can be found on the Bank's website at manual preparation or electronic preparation. Please contact the collateral staff to determine which method of reporting is recommended. Specific loan volume greater than 100 loan numbers are required to be assigned via the electronic reporting method. The Bank reserves the ability to determine which method will be utilized.

The Bank charges fees for individual loans listed in the database. Please see the Bank's [Collateral Fee Schedule](#) for additional information.

B. Unpledging of Listed Loans

Members or housing associates complete [Request to Release Listed Loans \(Form C-229\)](#) to remove a pledged loan. The Bank requires ineligible loans to be removed from the loan listing within 30 days of becoming ineligible.

3.3. Delivery Status

A member or housing associate must deliver qualifying loans to the Bank, or its custodial agent, if it has executed a Delivery or Housing Associate APSA or if the Bank notifies the member or housing associate that they must deliver qualifying loans to the Bank, or its custodial agent.

The Bank or its agent may review all CREM, including multifamily real estate mortgage loans, prior to Members who have executed a Delivery APSA pledging such collateral to the Bank. Notwithstanding the eligibility criteria specified in the Bank's Collateral Procedures and checklists, the Bank shall have the ability and authority, in its sole discretion, to determine whether to accept each CREM as eligible collateral.

Members or housing associates will be required to deliver collateral in the following circumstances:

- The member is not insured or chartered and regulated by an agency of the federal government;
- The member's ratio of Tier I leverage capital to risk weighted assets is less than 4.0 % or total capital to risk weighted assets is less than 8.0 %;
- There are indications of potential unrecorded losses that, if recognized in the member's financial statements, would reduce the ratios to less



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than the stated requirements above;

- Federally-insured financial institutions with a CAMELS rating of “4” or “5”; or
- The Bank believes conditions exist such that collateral should be in the possession of the Bank.

Credit union members will be required to deliver pledged loans in the event the Bank is unable to negotiate a satisfactory Intercreditor Agreement with the member’s corporate central credit union or the central liquidity facility.

A. Procedures for Delivering Loans

When the member or housing associate is required to deliver mortgage collateral to the Bank, or its custodial agent, the following documents as applicable must be sent to the Bank, or its custodial agent, using an insured, overnight express carrier:

- Confirmatory Assignment of Mortgages (Form C-220);
- Schedule of Listed Loans (Form C-221) or electronic equivalent;
- Original Notes together with the most current modification
- Loan Agreements if Commercial RE 1st mortgage ;
- The Bank may request copies of the mortgage/deed of trust and the title policy if necessary.
- Original Loan Guaranty Certificate (VA), Mortgage Insurance Certificate (FHA) or Assignment of Guaranty (USDA/FSA).
- All the steps for Listing Mortgages found in Section #3.2 apply for delivered loans. Refer to 3.2.1 for steps to list the loans.
- Delivered loans are subject to monthly collateral fees detailed in the Bank’s Collateral Fee Schedule.

B. Release of Delivered Loans

Members or housing associates may request the return of individual delivered loans at any time provided the Bank retains sufficient delivered collateral to secure outstanding credit exposures. If a delivered loan becomes ineligible (i.e. paid-in-full, classified as substandard, etc.), the loan must be removed from pledged collateral immediately.

Requests to release individual delivered loans should be itemized on



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Request to Release Listed Loans (Form C-229), signed by an authorized signer, and faxed or emailed to the Collateral Department. The Bank returns original loan documents via overnight courier within one business day of receiving the request.

If the Bank determines that collateral delivery by member or housing associate is no longer required, all delivered loan documents will generally be returned to the member or housing associate within 30 days.

4. Pledging Securities as Collateral

The Bank requires that all securities pledged to the Bank as collateral be held in the Bank's Safekeeping Department or at an approved third-party custodian.

Custodial institutions must be an FHLB, a Federal Reserve Bank, or a financial institution domiciled in the United States, with Tier 1 or tangible capital of \$250,000,000, and a long-term issuer rating of the fourth highest investment grade (BBB).

The Bank requires that the securities be maintained in a segregated account, with the Bank named as the beneficiary. Prior Bank approval must be obtained prior to substituting pledged securities with like collateral. Requests for sale, removal or substitution of pledged securities must be communicated to the Bank's Collateral Department at least one business day prior to the required delivery date.

4.1. Securities Safekept at the Bank

The Bank does not charge fees for pledging securities safekept at the Bank's Safekeeping Department. Additionally, proceeds from securities' payments and maturities are automatically deposited to the member's or housing associate's demand deposit account provided all outstanding credit exposures remain fully secured.

A. Assigning Securities as Collateral

An authorized signer of the member or housing associate must complete, sign, and fax or email [Exhibit A – Confirmatory Assignment of Securities Form C-318](#) to the Bank's Collateral Department. Collateral balances will be updated within one business day following receipt of a properly completed assignment.

Instructions for transferring securities to the Bank's Safekeeping Department can be found on the Bank's website at Delivery Instructions or by contacting Member Financial Services at safekeeping@fhlbdm.com



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or 800-544-3452 extension 5415.

B. Release of Pledged Securities

An authorized signer of the member or housing associate must complete, sign, and fax or email Request to Release Assigned Securities (Form C-310) to the Collateral Department. The Collateral Department will release the security within one business day provided outstanding credit exposures are fully secured.

The Bank's Safekeeping Department must be provided delivery instructions for all securities to be transferred out of the member's or housing associate's account.

4.2 Securities Safekept by a Custodian

For a list of approved third-party custodians, contact the Credit Department. The fees for pledging securities using an approved custodian can be found on the Collateral Fee Schedule.

Prior to posting pledged securities to a member's or housing associate's account, the Bank must be in possession of a [Custodial Agreement](#) executed by the member, custodian, and the Bank. The custodian must provide the Collateral Department with a monthly report to allow for reconciliation of pledged collateral.

A. Assigning Securities as Collateral

An authorized signer of the member or housing associate must complete, sign, and fax or email Exhibit A – Confirmatory Assignment of Securities (Form C-419) to the Bank's Collateral Department. The Collateral Department updates collateral balances generally within one business day of receipt of confirmation by the custodian.

B. Release of Pledged Securities

An authorized signer of the member or housing associate must complete, sign, and fax or email Request to Release Assigned Securities (Form C-411) to the Collateral Department. Provided outstanding credit exposures are fully secured, the Collateral Department will release the security within one business day and notify the custodian of the release.

5. Pledging Time Certificates of Deposit



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Members or housing associates pledging a Time Certificates of Deposit (TCD) held at the Bank should follow the procedures detailed in Section 4.1 - Securities Safekept at the Bank. Only deposits at the Bank can be used as collateral for credit exposures.

6. Forms, Checklists and Instructions

6.1. [Borrowing Base Certificate Forms, Instructions, and Checklists](#)

Used for loans pledged under the Blanket APSA.

Borrowing Base Certificate	Form Number	Eligibility Checklist
Government Guaranteed 1-4 Family Residential Loans	C – 203	CL - 203
Residential 1-4 Family First Mortgage Loans	C – 204	CL – 204
Agriculture Real Estate First Mortgage Loans	C – 205	CL – 205
Commercial Real Estate First Mortgage Loans	C – 206	CL – 206
Residential 1-4 Family Second Mortgage Loans	C – 207	CL – 207
Multi-family Real Estate First Mortgage Loans	C – 208	CL – 208
Home Equity Line of Credit Loans (HELOC)	C – 213	CL – 213
1-4 Family First Mortgage Construction Loans	C – 224	CL – 224
Participation Loans Residential 1-4 Family First Mortgages*	C – 216	CL – 216
Participation Loans Commercial Real Estate First Mortgages*	C – 217	CL – 217
Participation Loans Multi-Family First Mortgages*	C – 218	CL – 218
Participation Loans Agriculture Real Estate First Mortgages*	C – 219	CL – 219
Secured Business Loans	C – 214	CL – 214
Secured Business Lines of Credit	C - 226	CL – 226
Secured Agri-Business Loans	C – 215	CL – 215
Secured Agri-Business Lines of Credit	C - 226	CL - 227

* Contact the Collateral Department at advancecollateral@fhlbdm.com or 800-544-3452 extension 5408 for additional pledging requirements before submitting participation loans as collateral for the first time.

6.2. [Forms for Listed or Delivered Loans](#)



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All loans listed or delivered to the Bank, or its custodial agent, must satisfy the eligibility requirements contained in the checklists detailed in Section 6.1.

Form Name	Form Number
Confirmatory Assignment of Mortgages/Deeds of Trust	C – 220
Schedule to List Mortgages*	C – 221
Assignment of Other Guaranteed Loans	C – 222
Request to Release Listed or Delivered Mortgage Loans	C – 229

*Instructions for completing and submitting Form C – 221, either manually or electronically can be found at [Collateral Forms](#).

6.3. Pledged Securities Forms

A. Forms Used When Securities are Held with the Bank

Form Name	Form Number
Confirmatory Assignment of Securities, Exhibit A	C – 318
Request to Release Securities	C - 310
Transferring Securities into FHLB – Delivery Instructions	C – 525

B. Forms Used When Securities are Held with Custodial Bank

Form Name	Form Number
Confirmatory Assignment of Securities, Exhibit A	C – 419
Request to Release Securities	C – 411
Custodial Agreement	



7. Collateral Verification and Compliance

As required by regulation, the Bank periodically reviews the existence, eligibility, and characteristics (underwriting, documentation, and routine administration) of collateral pledged to the Bank.

The Bank's Credit Risk Subcommittee determines the frequency and scope of collateral verifications based on various factors, including but not limited to, the following:

- Member's ICR;
- Collateral reporting and/or delivery status;
- Types of pledged collateral;
- Identified concentrations of subprime and nontraditional loans; and
- Total credit exposure.

The member or housing associate must pay any applicable fees and costs incurred by the Bank in connection with the collateral verification of that member or housing associate.

Based on the results of a member's or housing associate's collateral verification, the Bank's Collateral Department may change the CML of collateral pledged by the member or housing associate to the Bank.

8. Anti-Predatory Lending Policy

The Bank requires that residential mortgage collateral and purchased mortgage loans comply with applicable federal, state and local anti-predatory lending laws and other similar credit-related consumer protection laws, regulations and orders designed to prevent or regulate abusive and deceptive lending practices and loan terms (collectively, anti-predatory lending laws). For example, anti-predatory lending laws may prohibit or limit certain practices and characteristics, including, but not limited to the following:

- Requiring the borrower to obtain prepaid, single-premium credit life, credit disability, credit unemployment, or other similar credit insurance;
- Requiring mandatory arbitration provisions with respect to dispute resolution in the loan documents; or



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- Charging prepayment penalties for the payoff of the loan beyond the early years of such loan.

Any residential mortgage collateral that does not comply with all applicable anti-predatory lending laws will be ineligible as collateral to support advances or other transactions with the Bank. Additionally, a loan cannot be given collateral value if:

- The annual interest rate and/or points and fees charged for the loan exceed the thresholds of the Home Ownership and Equity Protection Act of 1994 and its implementing regulations (Federal Reserve Board Regulation Z);
- The loan has been identified by a member's primary federal regulator as possessing predatory characteristics;
- The loan includes prepaid, single premium credit insurance;
- The loan is subject to state and/or local laws where one or more of the major credit-rating agencies (Standard and Poor's, Moody's Investors Service, and/or Fitch Ratings) will not rate a security (or securities) in which the underlying collateral pool contains such a loan;
- The loan is defined as a High Cost Loan, Covered Loan, or Home Loan as categorized under one or more federal, state, or local predatory lending laws as having certain potentially predatory characteristics;
- The loan includes penalties in connection with the prepayment of the mortgage beyond the early years of the loan, to the extent that such penalties are prohibited or limited by applicable anti-predatory lending laws; or
- The loan requires mandatory arbitration with respect to dispute resolution, to the extent that such requirements are prohibited or limited by applicable anti-predatory lending laws.

Pledgors of residential mortgage collateral are responsible for avoiding all unlawful practices and terms prohibited by applicable anti-predatory lending laws. The Bank will take those steps it deems reasonably necessary in order to confirm or monitor compliance with this Anti-Predatory Lending Policy.

The Bank will adopt procedures to monitor for member compliance with this Anti-Predatory Lending Policy that will:



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- Ensure that all members have executed the representation and warranty certification described below;
- Ensure that all pledging subsidiaries and affiliates of members have executed the representation and warranty certification described below;
- Review member regulator exam reports for findings pertaining to fair lending and/or abusive lending practices;
- Monitor member regulator alerts for newly issued supervisory agreements, memoranda of understanding, or cease and desist orders pertaining to fair lending and/or abusive lending practices; and
- If abusive lending issues are identified by the member's regulator, or if, Bank staff identifies anti-predatory lending abuses, then the member will be required to undertake a review of its policy and procedures for compliance with the Bank's collateral policies. At its discretion, the Bank may permit such a review to be conducted by the member's internal auditor or the Bank may choose to conduct the review itself or use a third party, at the expense of the member.

In addition, the Bank reserves the right to require evidence reasonably satisfactory to the Bank that residential mortgage collateral does not violate applicable anti-predatory lending laws. With respect to residential mortgage collateral purchased by the pledgor, the pledgor is responsible for conducting due diligence that it deems sufficient to support its certification and indemnification agreements with the Bank.

In addition to the terms and conditions of the Bank-approved APSA type, each pledgor must execute a representation and warranty certification with the Bank that: (1) certifies its understanding and compliance with the Bank's Anti-Predatory Lending Policy and all applicable anti-predatory lending laws; and (2) certifies it will maintain qualifying collateral and will (a) substitute eligible collateral for any residential mortgage collateral that does not comply in all material respects with applicable anti-predatory lending laws or this Anti-Predatory Lending Policy; and (b) indemnify, defend and hold the Bank harmless from and against all losses, damages, claims, actions, causes of action, liabilities, obligations, judgments, penalties, fines, forfeitures, costs and expenses, including, without limitation, legal fees and expenses, that result from the pledge of any



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residential mortgage collateral that does not comply in all material respects with applicable anti-predatory lending laws or this Anti-Predatory Lending Policy.

The Bank will not knowingly accept as eligible collateral residential mortgage collateral that violates applicable anti-predatory lending laws or this Anti-Predatory Lending Policy. If the Bank knows or discovers that such residential mortgage collateral violates applicable anti-predatory lending laws or this Anti-Predatory Lending Policy, the Bank may, in addition to all available rights and remedies at law or in equity (1) require the pledgor to substitute eligible collateral, (2) value such residential mortgage collateral at zero for collateral purposes, and (3) require the pledgor to undertake a review of its policies, practices, and procedures for complying with the Bank's collateral policies.

9. Subprime and Nontraditional Loans

The Bank acknowledges that no single criterion consistently and accurately defines subprime or nontraditional loans, but adopts the following definitions for the management of credit risk. Conventional residential loans that meet the Bank's definition of subprime and or nontraditional may be subject to additional due diligence during collateral reviews, higher CMLs, or classified as ineligible for pledging as collateral.

FHLB Des Moines defines a subprime loan to be a first or second lien 1-4 family residential mortgage that has been outstanding 24 months or less with two or more of the following subprime characteristics at origination:

- The borrower has a credit bureau score (FICO² score) of 660 or less at origination, the member has not obtained a FICO score for the borrower, or a FICO score is not available for the borrower;
- The borrower has two or more 30-day delinquencies in the last 12 months or one or more 60-day delinquencies in the last 24 months;
- The borrower has experienced a foreclosure, judgment, or has had debt charged-off in the last 24 months;
- The borrower has had a bankruptcy in the last 60 months; or

² FICO® is a registered trademark of Fair Isaac Corporation



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- The borrower's debt-to-income ratio is 50% or greater or a debt-to-income ratio has not been calculated at origination

Subprime loans will also include first or second lien 1-4 family residential mortgages that are originated as a product available to or under a lending program targeting borrowers with any of the above subprime characteristics.

A nontraditional loan is a first or second lien 1-4 family residential mortgage loan that allows borrowers to defer the repayment of principal and/or interest.

The definitions above apply to owner and non-owner occupied 1-4 family residential properties pledged as collateral. The definitions do not apply to government insured mortgage loans, reverse mortgages or home equity lines of credit (HELOCs), except when originated as simultaneous second lien mortgage loans.

FHLB Des Moines will identify subprime and nontraditional loans during the field review process using a sample of the pledged collateral portfolio. Eligible subprime or nontraditional loans pledged will be subject to higher CMLs.

At the conclusion of a MCV, net eligible residential loans will be classified as Tier 1, Tier 2 or Tier 3. Tier 1 loans will include eligible loans that are not identified as meeting the bank's definition of subprime or nontraditional. Tier 2 loans will consist of eligible loans identified as nontraditional. Tier 3 loans will consist of eligible loans identified as meeting the Bank's definition of subprime. The percentage of the portfolio that the Tier 1, 2, and 3 loans represent will be given at the conclusion of the MCV and members will use these percentages when completing subsequent pledging forms. See the instruction documents for residential loan pledging forms for more details.

As an example, a member that has \$10,000,000 of eligible 1-4 residential loans, with 90% of the portfolio in Tier1; 8% in Tier 2 and 2% in Tier 3, would be subject to the following CMLs on April 1, 2009 (presuming a medium quality score):

- Tier 1 = \$9,000,000 at 135%
- Tier 2 = \$800,000 at 150%; and



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- Tier 3 = \$200,000 at 210%.

Nontraditional and subprime adjustable rate residential 1-4 family first and/or second lien mortgage loans originated after July 10, 2007 will be eligible only if the borrower has verified available cash and/or income to meet their required debt, taxes, insurance and other monthly obligations at the fully-indexed interest rate with a fully amortizing repayment schedule at the loan's origination. The Bank will determine eligibility of nontraditional and subprime adjustable rate residential 1-4 family first and/or second lien mortgage loans originated after July 10, 2007 as part of the MCV process,

Private-label residential mortgage-backed securities issued after July 10, 2007 are eligible to be pledged if the member provides an enforceable representation and warranty from the security's issuer that the residential mortgages included in the loan pools securitized by those residential mortgage-backed securities comply with the FFIEC guidance.



10. Glossary

Advance – An extension of credit from the Bank to a member or housing associate.

Affiliate – Any business entity that controls, is controlled by, or is under common control with a member.

Agricultural Real Estate Loans - Other Real Estate Related Collateral secured by a first mortgage on agricultural real estate.

Agency CMO & REMIC MBS – Securities represented by agency-backed, collateralized mortgage obligations and real estate mortgage investment conduits (excluding interest only, principal only and residual tranches) will be accepted as collateral on a case-by-case basis.

Agri-Business Loans – Secured loans to finance agricultural production and other loans to farmers that are within the legal lending limit of the Community Financial Institution.

Bank – The Federal Home Loan Bank of Des Moines.

Bank Act – The Federal Home Loan Bank Act.

Blanket Pledge Agreement – An advance, pledge and security agreement pursuant to which the member grants the Bank a security interest in all mortgage collateral, securities collateral, and other collateral held by the member to secure indebtedness.

Business Loans – Secured commercial and industrial loans that are within the legal lending limit of the Community Financial Institution.

Capital Deficient – A member that fails to meet its minimum regulatory capital requirements as defined or otherwise required by the member's appropriate federal banking agency, insurer or, in the case of members that are not federally insured depository institutions, state regulator.

CFI – See Community Financial Institution.

CMO – Collateralized Mortgage Obligation.

Community Investment Cash Advance (CICA) – an advance that can be used for a wide variety of purposes to meet local affordable housing and community development needs.

CMBS – Commercial real estate mortgage-backed securities.



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Collateral Maintenance Level (CML) – The factor by which collateral is discounted to calculate the advance or borrowing equivalent of such collateral. For example, a Collateral Maintenance Level of 125% implies that \$1,000,000 of collateral pledged supports \$800,000 in borrowings. The CML is the mathematic inverse of the loan-to-value ratio ($80\% = 1.0$ divided by 1.25).

Commercial Real Estate Loans – Other Real Estate Related Collateral secured by a first mortgage on commercial real estate.

Community Financial Institution (CFI) – An institution that has its deposits insured under the Federal Deposit Insurance Act and three-year average assets less than an annually adjusted dollar amount set by the Federal Housing Finance Agency that is based on changes in the Consumer Price Index. Insurance company and credit union members do not meet this definition.

Construction Loans – Other Real Estate Collateral secured by a first mortgage on real property for the purpose of constructing improvements to the real property. Eligible construction loans are limited to loans secured by non-speculative 1-4 family residential properties.

Convertible Advance – Convertible (putable) advances are (i) an advance that the Bank may, at its discretion, terminate and require the member to repay at predetermined dates prior to the stated maturity date of the advance, or (ii) an advance with a strike, which is a fixed-rate advance that requires the member to repay the advance when the three-month LIBOR reaches or exceeds an agreed upon level. If the Bank terminates a convertible (putable) advance prior to the stated maturity date the Bank shall offer to provide replacement funding to the member provided the member is able to satisfy the normal credit and collateral requirements of the Bank for the replacement funding request.

Credit Enhancement Fee (CE Fee) – A fee payable monthly by an MPF Bank to a Participating Financial Institution (PFI) in consideration of the PFI's obligation to fund the realized loss for a master commitment, subject to the terms and fee rate applicable to such master commitment and MPF mortgage product which may include performance and risk participation features.

Credit Enhancement Obligation – A contingent liability for PFIs that results from selling mortgage loans to the Bank.

Delivery Pledge Agreement – An advance, pledge and security agreement pursuant to which the member grants the Bank a security interest only in specifically identified collateral categories to secure indebtedness to the Bank. Under the Delivery Pledge Agreement, the member must deliver all loan collateral pledged to the Bank, or its



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custodial agent.

eAdvantage – A private, secure, “members-only” website that allows members and eligible housing associates to conduct business and access their accounts using the internet.

Federal Housing Finance Agency – An agency of the United States Government that has regulatory authority and supervisory oversight responsibility for the twelve Federal Home Loan Banks, Fannie Mae, and Freddie Mac.

FHA – Federal Housing Administration.

Ginnie Mae – Government National Mortgage Association.

HELOCs – Home equity lines of credit secured by 1-4 family properties.

Housing Associate – A chartered institution or state housing finance agency that has been approved as a housing associate that may obtain advances from the Bank if certain requirements are met (formerly known as a nonmember mortgagee).

Internal Credit Rating (ICR) – A scoring system used by the Bank to measure the financial condition of a member or housing associate. The ICR is based on quantitative and qualitative factors.

Indebtedness – advances, standby letters of credit, and the member’s credit enhancement exposure obligations.

LIBOR – London Inter-Bank Offered Rate.

Master Commitment – An agreement, including any addenda or attachments thereto, executed by a Participating Financial Institution (PFI) and an Mortgage Partnership Bank (MPF) Bank in accordance with the MPF Guides which provides the terms under which the PFI will deliver mortgages to the MPF Bank.

Member – Any institution that has been approved for membership in the Bank and which has purchased capital stock in the Bank.

Mortgage Partnership Finance (MPF) — A mortgage purchase program established by the Federal Home Loan Bank of Chicago to provide a competitive secondary market alternative for members of participating Federal Home Loan Banks.

MPF Provider – The Federal Home Loan Bank of Chicago



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Multi-Family Loans – First mortgage loans on multi-family residential real estate.

Nontraditional Loan – A first or second lien 1-4 family residential mortgage loan that allows a borrower to defer the repayment of principal and/or interest.

Participating Financial Institution (PFI) – An eligible member or housing associate participating in the MPF program.

REMIC – Real Estate Mortgage Investment Conduit.

Regulatory Capital – Paid-in capital stock, as defined in the Bank's Capital Plan, including mandatorily redeemable capital stock classified as a liability under Statement of Financial Accounting Standard 150, plus retained earnings

Residential Housing Finance Assets – Includes any of the following:

- (1) Loans secured by residential real property;
- (2) Mortgage-backed securities;
- (3) Participations in loans secured by residential real property;
- (4) Loans or investments qualifying under the definition of "community lending" in 12 C.F.R. §900.1;
- (5) Loans secured by manufactured housing, regardless of whether such housing qualifies as residential real property; or
- (6) Any loans or investments which the Bank, in its discretion, otherwise determines to be residential housing finance assets.

Residential Mortgage Collateral – Residential mortgages loans and securities backed by residential mortgage loans pledged to the Bank as collateral.

Rural Capital Advance – This is a Community Investment Cash Advance available for economic development initiatives in rural areas.

Second Mortgage Loans – Second mortgage loans on 1-4 family residential real estate.

Specific Pledge Agreement – An advance, pledge and security agreement pursuant to which the member grants the Bank a security interest only in specifically identified collateral categories to secure indebtedness to the Bank. Members under the specific agreement are limited to certain types of collateral and are required to periodically provide detailed listings of all loans pledged.

Standby Letter of Credit – An undertaking by the Bank on behalf of a member or housing associate that represents an obligation to the beneficiary (1) to repay money borrowed by or advanced to or for the account of the member or housing associate or (2) to make payment on account of any indebtedness undertaken by the member or housing



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associate, or (3) to make payment on account of any default by the member or housing associate in the performance of an obligation. It does not include a commercial letter of credit or any short-term self-liquidating instrument used to finance the movement of goods.

State Housing Finance Agency –A public agency, authority, or publicly sponsored corporation that serves as an instrumentality of any state or political subdivision of the state, and functions as a source of residential mortgage loan financing in that state; or a legally established agency, authority, corporation, or organization that serves as an instrumentality of any Indian tribe, band, group, nation, community, or Alaska Native village recognized by the United States or any state, and functions as a source of residential mortgage loan financing for the Indian or Alaska Native community.

Subprime Loan – A first or second lien 1-4 family residential mortgage that has been outstanding 24 months or less with two or more of the following subprime characteristics *at origination*:

- The borrower has a credit bureau score (FICO score) of 660 or less at origination, the member has not obtained a FICO score for the borrower, or a FICO score is not available for the borrower;
- The borrower has two or more 30-day delinquencies in the last 12 months or one or more 60-day delinquencies in the last 24 months;
- The borrower has experienced a foreclosure, judgment, or has had debt charged-off in the last 24 months;
- The borrower has had a bankruptcy in the last 60 months; or
- The borrower's debt-to-income ratio is 50% or greater or a debt-to-income ratio has not been calculated at origination

Subprime loans will also include first or second lien 1-4 family residential mortgages that are originated as a product available to or under a lending program targeting borrowers with any of the above subprime characteristics.

Tangible Capital –

- (1) Capital, calculated according to generally accepted accounting principles, less "intangible assets" except for purchased mortgage servicing rights to the extent such assets are included in a member's core or Tier 1 capital, as reported in the member's Thrift Financial Report for members whose primary federal regulator is the Office of Thrift Supervision, or as reported in the Report of Condition and Income for members whose primary federal regulator is the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, or the Board of Governors of the Federal Reserve System.



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- (2) Capital calculated according to generally accepted accounting principles, less intangible assets, as defined by the Bank for members that are not regulated by the Office of Thrift Supervision, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, or the Board of Governors of the Federal Reserve System; provided that the Bank shall include a member's purchased mortgage servicing rights to the extent such assets are included for the purpose of meeting regulatory capital requirements.

Tier 1 Loans – Eligible residential loans pledged as collateral that are determined in a MCV to not have any nontraditional or subprime characteristics.

Tier 2 Loans – Eligible residential loans pledged as collateral that are identified as nontraditional in a MCV.

Tier 3 Loans – Eligible residential loans pledged as collateral that are identified in a MCV as meeting the Bank's definition of subprime.

Total Credit Exposure – A member's or housing associate's advances, Standby Letters of Credit, Credit Enhancement Obligations, and other extensions of credit from the Bank.

USDA – United States Department of Agriculture.

U.S. Treasury Securities – Direct obligations of the United States Treasury, including bills, notes and bonds.

VA – Veterans Administration.