



# **Anti-Predatory Lending Policy for Collateral and Residential Mortgage Loans Purchased from Members**

**June 29, 2006**



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The Bank supports the expansion of fair and equitable home ownership opportunities. To discourage predatory lending practices, which are inconsistent with such opportunities, and to protect the Bank from potential liabilities, the Bank has established the following anti-predatory lending policy with respect to residential mortgage loans and securities backed by residential mortgage loans pledged to the bank as collateral (“Residential Mortgage Collateral”) or residential mortgage loans purchased from members (“Purchased Mortgage Loans”).

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
- 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 become a Purchased Mortgage Loan or 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 are loans categorized under one or more federal, state, or local predatory lending



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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; or
- The loan requires mandatory arbitration to settle disputes.

Pledgors of Residential Mortgage Collateral, as well as sellers of Purchased Mortgage Loans, 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:

1. Ensure that all members have executed the representation and warranty certification described below;
2. Ensure that all pledging subsidiaries and affiliates of members have executed the representation and warranty certification described below;
3. Review member regulator exam reports for findings pertaining to fair lending and/or abusive lending practices;
4. 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;
5. 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 forms of advances, pledge and security agreement, 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;



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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 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.

Under the terms and conditions of the Bank's Participating Financial Institution Agreement, each member Participating Financial Institution has represented and warranted to the Bank that it (1) is aware of and will comply at all times with the Mortgage Partnership Finance Origination Guide and the Mortgage Partnership Finance Servicing Guide (collectively, the "MPF Guides"), including the anti-predatory lending policy and provisions contained therein; (2) will comply at all times with the requirements of all applicable Anti-Predatory Lending Laws; and (3) will indemnify, defend and hold harmless the Bank 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 sale of any Acquired Member Asset that does not comply in all material respects with the Anti-Predatory Lending Laws. The Anti-Predatory Lending Policy and related provisions contained in the MPF Guides, as may be amended, are adopted as policy by the Bank as they relate to Purchased Mortgage Loans.