

COLLATERAL MANUAL

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Federal Home Loan Bank
of Seattle

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USE OF THIS MANUAL

This manual contains information and requirements regarding the selection, pledging, updating, and withdrawing of collateral for members of the Federal Home Loan Bank of Seattle (Seattle Bank) that are under the physical possession or segregated/listing collateral arrangements, or who rely on pledged securities collateral to meet their minimum collateralization requirements.

The Seattle Bank is required by regulation to be fully collateralized on all extensions of credit to its members and cannot allow an incident of collateral deficiency, even for a short time. These regulations and the policies included in this manual describe the types of collateral the Seattle Bank can accept to secure advances. If you have received this manual, collateral pledged by your institution is to be either physically delivered or electronically reported to the Seattle Bank to secure outstanding advances. Members under the Blanket Pledge collateral arrangement may have received this manual in order to assist with pledging securities as collateral.

An overview of the Seattle Bank's credit and collateral policies and collateral requirements can be found in the Credit and Collateral section of the *Financial Products and Services User Guide*, available on the Seattle Bank Web site at www.fhlbsea.com under the Member Services / Forms and Manuals heading. All applicable collateral forms are located in the Forms section under Member Services / Forms and Manuals heading.

The Seattle Bank's Collateral Department is available to assist you at any time during the hours of 7:30 a.m. to 4:00 p.m. Pacific Time. The Seattle Bank observes all Federal Reserve Bank holidays.

ADVANCES, SECURITY AND DEPOSIT AGREEMENT

All members, regardless of their collateral arrangement, must sign the Seattle Bank's *Advances, Security and Deposit Agreement*, pledging all of their assets to secure their indebtedness to the Seattle Bank. However, for members on the Physical Possession collateral arrangement, only those assets that are delivered to the Seattle Bank are included in the member's daily calculation of discounted eligible collateral.

LOAN COLLATERAL TYPES

PHYSICAL POSSESSION

Under the Physical Possession collateral arrangement, members deliver certain loan documents and other information to the Seattle Bank. The Seattle Bank determines the member's total funding capacity based on the delivered collateral. Members on Physical Possession may not use third-party collateral custodians for securities or loans, unless approved to do so by the Credit Risk Department. In general, de novo institutions are initially placed on a Physical Possession collateral arrangement.

SEGREGATION/LISTING

Under the Segregation/Listing collateral arrangement, the member submits a list of the collateral pledged to the Seattle Bank on a specified schedule, ranging from daily to monthly. The Collateral Department will coordinate the appropriate format for the data file with the member. The Seattle Bank determines the funding capacity of the member's non-securities collateral based on that list.

OVERVIEW

The member must also be prepared to physically segregate the collateral from other assets or to deliver the collateral to the Seattle Bank, if requested to do so. The collateral documents, including original notes, should be readily accessible at the member's location for review by the Seattle Bank.

PRIOR TO PLEDGING COLLATERAL

Prior to pledging loan collateral to the Seattle Bank under either the Physical Possession or Segregated/Listing collateral arrangements, the member must complete and return a *Collateral Authorization and Signature Card*, authorizing the individuals who will be allowed to pledge and de-pledge collateral to the Seattle Bank.

The form must be signed by two of the officers listed on the member's certified copy of *Resolution Authorizing Advances, Security and Deposit Agreement* executed in connection with the *Advances, Security and Deposit Agreement* and as amended from time to time.

The Seattle Bank makes every effort to process new collateral in a timely manner; however, there are times when large volumes of transactions may prevent this from occurring. *For this reason, please allow a minimum of one to two weeks to process individual new pledges of loans.* Contact the Collateral Department to request expedited processing if you will need to borrow against the collateral before it can be processed.

PLEDGING LOANS UNDER A SEGREGATED/LISTING COLLATERAL ARRANGEMENT

The following procedures describe the requirements necessary to pledge loans under the Segregated/Listing collateral arrangement.

COLLATERAL TYPES

The Seattle Bank accepts loans as Segregated/Listing collateral for the following collateral types:

- First-lien, 1- to 4-family residential mortgages
- U.S. Government-guaranteed reverse mortgages
- First-lien, 1- to 4-family residential mortgage, completed construction loans
- Multifamily loans
- Commercial real estate loans
- Home equity and 2nd-lien loans
- Subprime residential mortgage loans
- Commercial property transition loans

Each of these collateral types has specific collateral requirements, which are described in the Credit and Collateral Administration section of the Seattle Bank's *Financial Products and Services User Guide*. The Seattle Bank will verify that the loans being pledged meet the collateral requirements and will exclude any loans ineligible loans from the pledged collateral.

COLLATERAL REPORTING AND FREQUENCY

Loan collateral pledged under the Segregated/Listing collateral arrangement must be reported in a specific data file format and on a specific schedule. The format and frequency vary with the collateral type; U.S. Government-guaranteed reverse mortgages should be reported on a weekly basis, whereas the other collateral types are reported on a monthly basis. The reporting frequency can be subject to change at the request of the Seattle Bank.

The Seattle Bank has proposed data file formats for reporting of the various collateral types, but understands that a member's systems may not support these formats. For this reason, when a member

starts pledging loans under a Segregated/Listing format, a representative from the Seattle Bank's Collateral Department will work with the member to create a file format that works for both parties. Files are typically delivered to the Collateral Department in a Microsoft Excel or a comma-delimited text format.

COLLATERAL VALUE AND REPORTING FORMAT

Due to the volume of loans typically reported under a Segregated/Listing collateral arrangement, an entire loan portfolio may not be loaded into the Seattle Bank's collateral system. Rather, separate systems are often used to determine collateral eligibility, value, and borrowing capacity rate. The Seattle Bank loads the summary collateral value by type into the collateral system and reports to the member on this basis.

Loan collateral pledged under the Segregated/Listing collateral arrangement may receive collateral value either based on the total unpaid principal balance of eligible loans, or on a market value obtained from a Seattle Bank licensed valuation model. The Seattle Bank's Credit Risk Department will determine which valuation method is to be used based on the risk level of the collateral being pledged. Loans valued using a mark-to-market valuation may require a more detailed data file format for reporting than loans that will not be run through the valuation model.

WITHDRAWING LOANS

Loans that the member wishes to withdraw as pledged collateral to the Seattle Bank should be removed from the loan list. Depending on the member's collateral pledging processes and/or the collateral type pledged, the Seattle Bank may require the member to complete a *Request for Release of Loan Collateral*.

PLEDGING LOANS UNDER A PHYSICAL POSSESSION COLLATERAL ARRANGMENT

REQUIRED PLEDGE FORMS UNDER PHYSICAL POSSESSION

Members delivering loan collateral to the Seattle Bank must certify that the collateral being pledged meets the requirements of the Seattle Bank by completing the appropriate pledge and certification form for each loan being delivered. The loan pledge and certification forms can be found on the Seattle Bank's Web site at www.fhlbsea.com. The individual signing the pledge form must be authorized on the *Collateral Authorization and Signature Card*.

Loans pledged under Physical Possession typically are assigned a market value on the unpaid principal balance of the loan by the Seattle Bank's collateral system. The borrowing capacity rate for the applicable collateral type is applied to the market value and not the par value of the loan.

COLLATERAL TYPES

The Seattle Bank accepts loans as Physical Possession collateral for the following collateral types:

- First-lien, 1- to 4-family residential mortgages
- Multifamily loans
- U.S. Government-guaranteed loans
- Commercial real estate loans
- Home equity and 2nd-lien loans
- First-lien agri-business loans – Equipment or Production

- First-lien farmland loans
- Secured first-lien small business loans

Each of these collateral types has specific collateral requirements, which are described in the Credit and Collateral Administration section of the Seattle Bank's *Financial Products and Services User Guide*. The Seattle Bank will make every effort to check the loans being pledged against the collateral requirements and will exclude any ineligible loans from the pledged collateral. Members are asked to pre-screen loans against the collateral requirements prior to submitting the loans as collateral and to certify by signing the pledge form that the loan being pledged meets all the collateral requirements as defined in the Credit and Collateral section of the Seattle Bank's *Financial Products and Services User Guide*.

GENERAL COLLATERAL DOCUMENTATION REQUIREMENTS

The loan documentation supporting each of the acceptable collateral types must meet the following general requirements in order to pledge the loans as collateral.

The following information should be consistently presented on the note, the mortgage or deed of trust, and the applicable pledge form:

- Loan number, which should appear on pledge form, exactly as presented on documents (not required on notes, but if present, should conform to pledge forms).
- Borrower name(s) and signature(s).
- Original loan or line of credit amount, which should be greater than the unpaid principal balance.
- Maturity date, which should not be less than six months from the pledge date.

If payments have been made on a fixed-rate pledged loan, the Seattle Bank will verify that the current balance is equal to or less than the expected balance after the reported number of payments has been made. If the actual balance is higher than the expected amortized balance, the Seattle Bank will request that the member provide an explanation and/or documentation supporting the discrepancy (e.g., copies of additional advance agreements, loan modifications, deferred payment plans, etc.)

Additional requirements which must be met include:

- The note should be **original**, and the mortgage or deed of trust, if applicable, should be an original or a complete copy including the recording number, riders and attachments, and the signatures of the borrower(s) (i.e., a "take-off" copy).
- In cases where the borrower(s) on the note is not an individual but rather a separate legal entity, the executed note should identify the signer in a way that is appropriate for the borrowing entity. (For example, if the borrower is a corporation, a corporate identification of the signer such as their title should be included and taken from the appropriate borrowing resolution).
- The legal description should be incorporated in the mortgage or deed of trust or attached as an exhibit.
- Written and numeric dollar amounts should be the same on both the note and the mortgage or deed of trust, where applicable.
- The mortgage or deed of trust must be notarized and recorded in the county or recording district where property is located.

The note must be wholly owned by the pledging institution. For notes on which the original payee was not the pledging member, evidence of endorsement and an executed and recorded assignment of the deed of trust or mortgage will be required, except in cases of blanket assignments pursuant to mergers or acquisitions.

Loans on which the obligor is a corporation, trust, limited liability company, or limited liability partnership must be accompanied by personal guarantees from the principals.¹

PARTICIPATIONS

Loan participations less than 100% owned are not eligible for pledging and delivery except on a case-by-case basis. If accepted, their eligibility will be evaluated at time of pledging. The credit risk officer and collateral manager will determine value, borrowing capacity rate, and documents required. Contact the collateral operations analyst or the collateral manager to obtain additional pledging requirements.

LOAN PLEDGE FORMS

Each of the eligible collateral types has a separate pledge form, which can be found in the Member Services / Forms and Manuals section of Seattle Bank's Web site. Each loan being pledged requires a separate pledge form that must be signed by an individual at the institution who is authorized to conduct collateral transactions. The pledge forms have four sections that must be completed by the member:

Loan Pledge Form Sections

- **Section I** - General information about the loan, such as loan number, borrower, address, loan-to-value ratio, balances, etc. The fields requested differ slightly by collateral type.
- **Section II** - A checklist of the applicable documentation to be submitted at the time of the loan pledge. The documents required differ slightly by collateral type. If there is any documentation that is not, or cannot be submitted, it must be identified in the area provided. In some cases, if specific documentation is not provided, the Seattle Bank will not be able to grant collateral credit for the loan and will return it to the member.
- **Section III** - A short questionnaire that must be completed. These questions are asked to ascertain collateral eligibility for aspects of the loan that the Seattle Bank does not request documentation to support, such as delinquency history or environmental risk assessments.
- **Section IV** - The authorized individual certifies that the loan being pledged meets the collateral requirements as defined in the Credit and Collateral Administration section in the Seattle Bank's *Financial Products and Services User Guide*.

Exception Collateral with Insufficient Documentation

Loans that do not meet the Seattle Bank's collateral or documentation requirements will be placed in a "suspense" (unvalued) status and not assigned value until any problems or questions have been resolved, or missing documents provided.

- After processing has been completed on a pledged group of collateral, the Collateral Department will contact the member to discuss any document exceptions.

¹ In lieu of a separate personal guarantee, the note may be countersigned by the principals as individuals, in addition to their signatures as authorized signers for the borrowing entity.

- The member and Collateral Department will identify the exceptions and solutions. Once the exceptions are rectified, the collateral will be transferred to an eligible collateral type.
- Collateral that is ineligible or cannot be corrected within a timely manner will be returned to the member, at the discretion of the Seattle Bank.

Limited Review Option for Non-conforming Residential Loans

At the member's option, non-conforming residential loans may be analyzed using a limited review process and accepted at a lower borrowing capacity of 60% in lieu of a full scope review of the loan. The fee charged for reviewing the loan is commensurate with the fee charged for pledging conforming residential loans. If this option is chosen, the member must remit only the documents applicable to pledge conforming residential loans. Please indicate clearly on your pledge form if you wish to choose this option (Non-conforming loan – Limited Review).

PLEDGING MORE THAN 100 LOANS

When a member on physical possession collateral status wants to deliver large volumes of residential loans, special procedures apply.

- The member should pledge loans in bulk in an electronic format rather than delivering individual loans using manually prepared pledging forms.
- Subject to the approval of the Credit Risk Department, original loan documents may be held by an approved third-party document custodian rather than directly delivered to the Seattle Bank.

The Collateral Department utilizes a program that captures data on the pledged loans, in some cases marks the collateral to market value, and then applies the applicable borrowing capacity rate. The total borrowing capacity of all collateral is then compared to the member's outstanding debt to ensure that sufficient collateral is delivered to cover their obligations to the Seattle Bank. The collateral system marks specific loan collateral to market on a daily basis, using appropriate benchmark rate indices.

The Seattle Bank requires that members pledging more than 100 loans use the electronic method of pledging loans. Under this method, the member provides an electronic transmission of loan data in either a Microsoft Access database or other acceptable electronic format. Contact the Collateral Department for layout requirements. For each loan pledged, the member must submit a master schedule of loans along with the Seattle Bank's standard loan pledging form. At a minimum, the master schedule of loans must contain the following information:

- Member docket number
- Member name (your institution)
- Pledge date
- Loan number
- Borrower name
- State of property location
- Current unpaid principal balance
- Current interest rate
- Maturity date
- Original loan balance

- Appraised value at origination
- Note date
- Next payment due date
- Number of living units

The master schedule of loans may contain more, but not less, than the information requested above and may provide the information in a different order than shown above.

Electronic files must be submitted in one of two possible types: "Add" or "Update." Upon receipt of the loan schedule and new "Add" file, the Seattle Bank will run the file and produce a report of new loans accepted and a report of any errors or missing information. Any errors or missing items must be resolved before the loans will have recognized value for borrowing purposes. New "Add" files may be furnished on a daily basis; updates of loan balances and last payment due dates are required monthly.

On occasion, the Seattle Bank may use a third-party pricing source that establishes a market value for loans using a computerized model similar to those used for pricing loan portfolios for sale in the secondary market. In this case, the Seattle Bank may classify the collateral arrangement as Segregated/Listing, which requires that the member submit a different type of data file. If the Seattle Bank uses this method of valuation for your loans, you will be notified and the correct file specifications provided.

DOCUMENT CUSTODIANS AND RIGHT TO INSPECT COLLATERAL

On occasion, the Seattle Bank may enter into an arrangement that permits a third-party document custodian, approved by the Seattle Bank, to hold the original loan documents for loans pledged to the Seattle Bank. In this case, the member must deliver the original documents to the document custodian, pursuant to a signed custody agreement to be executed among the Seattle Bank, the member, and the approved document custodian. The Collateral Manager manages negotiation of the custody agreement. The member (or its approved servicer) is authorized to request the return of documents for servicing purposes, subject to the limitations discussed in the custody agreement. on a monthly basis, the document custodian will report all loans that have been returned to the member for servicing reasons.

The document custodian will deliver a trust receipt, with a schedule of loans attached, as required in the custody agreement. The Seattle Bank must receive a valid trust receipt for each loan before the loan will be recognized for borrowing purposes.

The member is responsible for paying all applicable fees to the document custodian. The custodial agreement should provide for notification to the Seattle Bank in the event that the custodian is not paid as agreed.

The Seattle Bank has the right to inspect loan files for all pledged collateral in the member's offices. If applicable, the Seattle Bank also has the right to inspect the original loan documents in the custodian's storage facility.

FEES

For loan deliveries made directly to the Seattle Bank, the Seattle Bank will assess, add, and withdraw fees for each loan pledged, as well as a monthly maintenance fee, in accordance with the bank's published fee schedule. The monthly fees will be deducted from the member's DDA account on the last business day of

each month. Members may contact the Collateral Department on the first day of the following month to obtain the amount of fees debited or review the fees posted in the Seattle Bank's Online Services system.

MAINTAINING LOANS UNDER PHYSICAL POSSESSION

Loan collateral balances should be updated on a monthly basis. Updates are submitted on a Microsoft Excel spreadsheet via email to the Collateral Department and should be returned no later than the fifteenth day of the month to update the prior month's balances. Any changes to pledged collateral, such as change in term or eligibility status, must be reported to the Collateral Department as soon as possible.

MONTHLY LOAN UPDATE PROCESS

First Update Following an Initial Pledge

For first-time pledges, the Collateral Department will send a copy of the spreadsheet format that is required for updating the pledged loan balances monthly to the member.

Important: Do not reformat or move any of the rows, columns, or fields. Spreadsheets will be copied to the Seattle Bank's collateral system, and alteration of any formatting will cause the update to abort.

Please include all loans pledged as collateral. Any loan not included on the update will be moved to an ineligible category even if the Seattle Bank still holds the loan documents.

The following fields on the spreadsheet must be updated monthly.

- Loan Number: Use same format as appears on spreadsheet, using dashes or spaces only if they appear on the spreadsheet sent by the Collateral Department.
- Borrower's Name: Report any name changes and send supporting documentation, if applicable.
- Principal Amount: Current principal balance. Any increase in balance from the prior month's update must be explained in writing unless the loan type contains a negative amortization feature.
- Interest Rate: Report any changes and, if the loan is a fixed rate, send the appropriate modification agreement to document the change of rate.
- Next Payment Due Date: This is the due date of the next installment. For example, if the last payment received was due on February 1, 2005, the February update would reflect the next payment due date of March 1, 2005.
- Maturity Date: Report any date changes and send original documentation supporting the change, if applicable.

Monthly Updates

Email the update to: collateral@fhlbsea.com. Updates must be received no later than the fifteenth day of the new month following month-end. The format must be exactly the same as the file format provided at the time of initial setup. The member will be notified of any discrepancies in the format or information provided prior to the update to the collateral balance. Collateral deficiencies that are caused by updated loan balances must be addressed by the member immediately.

Add Loans

A member who has provided updates on previously pledged collateral may update the spreadsheet to reflect any new collateral added since the time of the last update, taking care to use the same format (i.e., do not

change the formatting of date fields, etc.) In order to receive borrowing credit, the new loans must have been physically delivered to and approved for pledging by the Collateral Department.

Withdrawn Loans

Any loans withdrawn after the last update should be deleted from the Excel spreadsheet. Verify that all loans you have withdrawn are deleted from the Excel spreadsheet and that the *withdrawal* form has been prepared in accordance with the procedures published in the Collateral Manual.

Changes in Loan terms

If the monthly update reflects changes in maturity date, borrower identity, payment schedule, interest rate, loan number or an increase in the principal balance, the member must provide copies of documentation reflecting the changes or the loan will be reclassified as ineligible.

WITHDRAWING LOANS UNDER A PHYSICAL POSSESSION COLLATERAL ARRANGEMENT

ELIGIBILITY

In order to withdraw collateral, the member's total borrowing capacity value of eligible collateral must exceed the total credit outstanding. Withdrawals resulting in a collateral deficiency require substitute collateral pledged, or pay down of indebtedness, prior to the release of collateral. An individual authorized on the signature card held in the Collateral Department must sign and approve all withdrawals and must certify that the withdrawal will not cause the member to become collateral deficient.

CONDITIONS REQUIRING A LOAN WITHDRAWAL

- The loan has been repaid.
- The loan has matured.
- The loan is 90 days delinquent or is in foreclosure.²
- The loan has been or will be sold.
- The loan has been determined to be ineligible, and the condition(s) creating the ineligibility have not been or cannot be cleared.
- An adjustable mortgage loan that is converted to a fixed-rate loan may be withdrawn and re-pledged without physically withdrawing the documents. Please send a signed certification form listing the loans as fixed with the new interest rate, years to maturity, and unpaid principal balance. Any modification agreements signed by borrowers should be provided and will be attached to the original documents.

REQUESTING A LOAN WITHDRAWAL

For all loans, a *Request for Release of Collateral* must be completed, including an authorized signature of an employee authorized on the *Collateral Authorization and Signature Card* held in the Collateral Department.

² At the option of the Seattle Bank, original documents on such loans may be retained as additional collateral although no borrowing capacity will be recognized. The Seattle Bank will cooperate in returning documentation needed to complete a loan modifications, workouts or foreclosure. Loans delinquent 90 or more days may remain assigned a zero value for collateral purposes (if the institution so desires) while a reinstatement or workout is being negotiated. If the loan is reinstated, the collateral can then be moved back to the appropriate valued collateral type, and the institution will not incur add and withdraw fees. Loans should be removed if the loan is referred for foreclosure.

LOAN COLLATERAL

The following information is required to process the request includes:

- Loan number
- Name of mortgagor
- Unpaid principal balance at the time of the last update
- Reason for withdrawal

Once the withdrawal has been approved and processed by the Seattle Bank, the loan documents will be sent via Federal Express with a copy of the withdrawal request.

PRIOR TO PLEDGING SECURITIES COLLATERAL

Prior to pledging and delivering securities collateral to the Seattle Bank, a member must complete and return a *Collateral Authorization and Signature Card*, authorizing the individuals who will be allowed to pledge and de-pledge collateral to the Seattle Bank on behalf of the member institution.

The form must be signed by two of the officers listed on the member's certified copy of *Resolution Authorizing Advances, Security and Deposit Agreement* executed in connection with the *Advances, Security and Deposit Agreement*. Members that safekeep their securities with the Seattle Bank may find it beneficial to authorize the same individuals to work with both the Seattle Bank's Collateral and Securities Safekeeping departments so that forms from only one department are needed to pledge and de-pledge securities collateral.

The Seattle Bank makes every effort to process new collateral on the date of receipt; however, there are times when large volumes of transactions may prevent this from occurring. *For this reason, we ask that you please allow a minimum of one day to process individual new pledges of securities.* Processing time for larger volumes of securities may be longer. Contact the Collateral Department to request expedited processing or if you will need to borrow against the collateral before it can be processed.

REQUIRED PLEDGE FORMS

The Collateral Department will accept the Safekeeping Department's Securities *Settlement Instructions*, provided the instructions are signed, the appropriate boxes (pledge or de-pledge) are initialed, and the individual authorizing the transaction is approved to pledge and de-pledge collateral. The Member Services Department will accept telephoned instructions from authorized individuals for non-collateral accounts, but a properly completed *Securities Settlement Instructions* form is required to pledge and de-pledge securities collateral for collateral account activity. This form is located in the Member Services / Forms and Manuals section of the Seattle Bank's Web site at www.fhlbsea.com.

COLLATERAL TYPES

The Seattle Bank accepts the following types of securities as collateral:

- U.S. Treasury and agency notes/bonds/non-mortgage debt
- Structured U.S. Treasury/Agency debenture (e.g., zero coupon structure)
- Small Business Administration (SBA) pool security
- Agency residential mortgage-backed security (MBS)/CMO/REMIC
- Agency residential MBS/CMO/REMIC – FFIEC Price Sensitivity Test fails
- Non-agency residential MBS/CMO/REMIC
- Non-agency residential MBS/CMO/REMIC – FFIEC Price Sensitivity Test fails
- Commercial mortgage-backed security
- Eligible security held by approved third-party custodian (if approved by Seattle Bank)

Each of the collateral types has specific collateral requirements, which are reported in the Credit and Collateral Administration section of the *Financial Products and Services User Guide*. The Seattle Bank will compare the securities being pledged against the collateral requirements and will exclude any securities that do not meet the requirements.

PLEDGING SECURITIES

Before securities can be pledged, the member should verify with the Collateral Department that the security is eligible. Securities for which the Seattle Bank cannot obtain reliable third-party pricing information through standard agencies may not be acceptable. Refer to the Credit and Collateral section of the Seattle Bank's *Financial Products and Services Guide* for a complete listing of securities and collateral requirements for collateral to the Seattle Bank.

The member must complete a *Securities Settlement Instructions* form, with the appropriate collateral pledge box initialed, signed by a bank officer authorized to pledge collateral in accordance with the signature card maintained in the Collateral Department. The form must identify each security by its CUSIP number, and include other information such as:

- Security description
- Original face value
- VS payment amount
- Coupon rate
- Maturity date
- Broker
- Delivery information (if security is leaving our custody)
- Other information as requested on the form for certain transactions

The pledge of securities into a collateral account should be initially coordinated through the Seattle Bank's Member Services department. Fax the Securities Settlement Instructions form to Member Services at 206.340.2350. Member Services will enter the trade in the securities safekeeping system and then notify the Collateral Department that the security is ready to be reviewed and approved as eligible collateral.

PROCESSING TIMELINE

Member Services and the Collateral Department require at least 24 hours to enter a collateral transaction into the system and to ensure that it is credited to the member's collateral balance. Although the Seattle Bank will make every effort to process same-day requests, it is not always possible to do so if volumes are high.

FEES

The Seattle Bank will not assess initial transfer fees or account maintenance fees for securities collateral to the custody of the Seattle Bank. Standard monthly custody fees and fees for receipt (including transfers between accounts), delivery, and maturity of securities will apply. (Please refer to Fees section of the *Financial Products and Services User Guide*.)

WITHDRAWING SECURITIES

ELIGIBILITY

In order to withdraw collateral, a member's total borrowing capacity value of eligible collateral must exceed the total credit outstanding. Withdrawals resulting in a collateral deficiency require that the member substitute pledged collateral or pay down their indebtedness prior to the release of collateral. An individual

authorized on the signature card held in the Collateral Department must sign and approve all withdrawals, and must certify that the withdrawal will not cause the member to become collateral deficient.

CONDITIONS REQUIRING WITHDRAWAL OF A SECURITY

The following conditions will automatically require the withdrawal of a security and will not require a request for release from the member:

- The security has matured, been called, or the unpaid principal has been repaid (as in a mortgage-backed security).
- The security is determined by the Seattle Bank to be ineligible.

REQUESTING A WITHDRAWAL OF A SECURITY

Members may withdraw securities from the Seattle Bank's custody or move the security out of the collateral account into another safekeeping account. Before a security can be withdrawn, the member must complete a *Securities Settlement Instructions* form and fax it to Member Services at 206.340.2350. This form must be signed by an individual authorized to conduct collateral transactions; additionally the authorized individual must initial in the designated collateral box on the form by the release section certifying that releasing the security will not cause a collateral deficiency.

TRI-PARTY SECURITY ARRANGEMENTS

ELIGIBILITY

Members that are not on a Physical Possession collateral arrangement may be approved to pledge securities via a tri-party custodial arrangement. To request a third-party collateral custodian for securities, the member must complete a *Request for Third-Party Custodian Approval* form. A securities custodian must be an FDIC-insured financial institution and well capitalized, as defined by the appropriate regulatory agency. In addition, the custodian must have:

- Tier I (core) capital of not less than \$100 million
- A total risk-based capital ratio of 10% or greater
- A tier 1 risk-based capital ratio of 6% or greater
- A tier 1 leverage-capital ratio of 5% or greater
- A minimum long-term credit rating of "A" or the equivalent, from Fitch, Standard & Poor's, or Moody's

Securities custodians must enter into a *Tri-Party Custodial Agreement* prepared by the Seattle Bank, and they must provide monthly, or more frequent, statements of securities held, including their current market values. Securities custodians may not be affiliated with the member institution.

FEES

There is a fee to review and approve a tri-party arrangement, in addition to a monthly maintenance fee. The fees for pledging securities through a third-party custodian are defined in the Fees section of the Seattle Bank's *Financial Products and Services User Guide*.

COLLATERAL MONITORING AND REPORTS

MONITORING COLLATERAL

Seattle Bank members can monitor their collateral position through the Seattle Bank's secure Online Services Web application. This application provides detailed information regarding the collateral currently pledged to the Seattle Bank. The data is refreshed every 30 minutes. All information can be printed, and details can be downloaded into a Microsoft Excel format. The system provides daily historical collateral information for the last six months, and month-end historical information for the last two years.

Member institutions that are not set up to access Online Services should contact Member Services at 800.214.9782 for access to the system. The Seattle Bank will provide access to the member's Administrator, who can then provide access to other individuals at the institutions.

COLLATERAL REPORTS

Members pledging securities or loans under the Physical Possession collateral control arrangement will receive monthly statements in the mail from the Seattle Bank. The securities statements will provide detailed information regarding the securities pledged in the member's various safekeeping accounts, including the collateral account. Members pledging loans will receive a statement of the fees that have been charged to the member's DDA for pledging, de-pledging, or monthly maintenance of physical loan collateral. All of the collateral reports are available through the Online Services application the day after they are issued.