FEDERAL RESERVE BANK OF NEW YORK
BORROWER-IN-CUSTODY COLLATERAL
PROGRAM REQUIREMENTS

INTRODUCTION

The Federal Reserve Bank of New York ("FRBNY") accepts loan pledges from qualifying depository institutions ("DI"s) to secure borrowings from the Discount Window ("DW") or for payment system risk ("PSR") purposes, subject to certain terms and conditions. The FRBNY only accepts loan collateral under the Borrower-in-Custody ("BIC") program. This document supplements the information found in the Pledging Collateral page of the national DW website and outlines the requirements of the BIC program.

ELIGIBILITY REQUIREMENTS

Eligibility for the BIC program is based on the FRBNY's comfort level with a DI's overall financial condition, loan administration controls, documentation practices, asset quality, and ability to meet all of the requirements of this program. To qualify for the BIC program, a DI must be in sound financial condition in the judgment of both its primary regulator and the FRBNY. Acceptance into the BIC program for pledging a particular loan collateral type does not imply acceptance for another loan collateral type.

LEGAL DOCUMENTATION REQUIREMENTS

To qualify for the BIC program, a DI must have the necessary Operating Circular 10 ("OC10") documentation on file with the FRBNY prior to completing a BIC Certification Form. Refer to Operating Circular No. 10 for required documentation.

UCC FILING: PERFECTION OF SECURITY INTEREST

The FRBNY's policy is to perfect its security interest in pledged collateral. Upon execution of all required OC10 documentation, the FRBNY files a Uniform Commercial Code ("UCC")-1 financing statement and searches for competing UCC filings.

DIs that are members of and pledge collateral to a Federal Home Loan Bank ("FHLB") or a corporate credit union should be aware that a blanket lien may already be filed against its assets. DIs should also know what loan types are pledged to the FHLB or corporate credit union and take the necessary steps to prevent any potential double-pledging of collateral to the FRBNY. FRBNY may choose to share collateral schedule information with other lien holders to ensure double pledging of collateral does not occur.

Eligible Loan Types and Margins	Refer to the Discount Window and PSR Collateral Margins Table.
Ineligible Collateral	The following types of loans are <u>not</u> eligible under the BIC program: • Insider loans (i.e., loans to a director, officer, or principal shareholder); • Loans owned by any other entity, including a subsidiary or affiliate[1]; • Loans collateralized by stock of the pledging DI or one of its affiliates; • Loans issued to an Employee Stock Option Plan (ESOP) of the pledging DI or one of its affiliates, or secured by such ESOP's assets; • Loans already pledged to another institution; • Receivables acquired by the pledging institution under receivables purchase facilities or programs administered by third parties; • Loans documented as repurchase agreements or derivatives contracts;

[1] Any company that controls the DI and any other company that is controlled by the company that controls the DI.

	• Foreign obligor loans, defined as loans in which: (1) either the primary obligor or any guarantor or co-obligor is incorporated outside of the U.S. or has its principal place of business or main office outside of the U.S.; or (2) any obligor or guarantor that is a natural person is domiciled outside of the U.S.; or (3) any material collateral for the loan is located outside of the U.S. • Loans that are not denominated in U.S. dollars or are not governed by U.S. law; • Loans that are not written in English[2]; • Loans that have either been paid off, sold, matured, or will mature within 30 days of pledge/processing date; • Loans on non-accrual status; • Loans in which the property taxes are not current; • Bilateral loans or loan participations with assignability or transfer restrictions (e.g., borrower/agent consent required to assign, eligible assignee or disqualified assignee lists, minimum net worth restrictions for assignees, or minimum assignment amounts); • Letters of credit; • Loans under the working capital and export credit insurance programs of the Export-Import Bank; • Commercial type loans (e.g., agricultural loans, commercial and industrial loans & leases, commercial real estate loans, construction loans, U.S. agency guaranteed loans, or raw land loans) more than 30 days past due (principal and/or interest); • Loans classified as Special Mention, Substandard, Doubtful or Loss; • Loans that fall below the approved acceptable internal/credit risk ratings; • Mortgage loans with combined loan-to-value (CLTV) greater than 80 percent. • Consumer loans more than 60 days past due (principal and/or interest); and • Loans where original paper documentation has been lost or unintentionally destroyed
Required Loan Documentation	Refer to Appendix A for documentation requirements by loan type.
Internal Risk Ratings	The FRBNY relies on the internal risk ratings assigned by the pledging DI to determine the acceptability of commercial type loans. However, the FRBNY must first determine how the DI's loan rating system maps to the FRBNY's acceptable ratings. In order to assess the integrity of a DI's loan rating system, the FRBNY may rely on examination reports and/or discussions with the DI's primary regulator. Provided the DI's internal risk rating system is deemed acceptable, the FRBNY will notify the DI regarding the internal risk ratings that will be acceptable to pledge. The DI's internal risk ratings will be mapped to FRBNY's "minimal", "normal", and excessive" credit quality standards used in valuing loan collateral. This process could result in some loans classified as "Pass" by the DI being deemed ineligible. **After the initial acceptance of the DI's internal risk ratings, it is the DIs ongoing responsibility to immediately inform the FRBNY of any changes in its loan rating system, including credit quality definitions and rating scale structure.**

[2] Loans written in Spanish may be eligible for pledge to the FRBNY. Please contact DW staff.

Form of Pledged Loans	Loans pledged to the FRBNY must be in either tangible or electronic form as defined below: Tangible Loans – are defined as loans that were originated and remain in paper form with "wet signatures." Electronic Loans – are defined as (1) loans documented in tangible form that have been converted to electronic copies and the original paper copies have been intentionally destroyed; or (2) loans originated in electronic form.
Imaged Loans	DI's pledging loans that have been converted to imaged form or will be converted as part of an ongoing process will need to reference the BIC Imaging Requirements and submit the appropriate addendum, if necessary. Refer to Appendix B for details. Note: DI's pledging loans that were originated in electronic form are not required to complete an addendum; but will need to review Appendix B to ensure that they are meeting the imaging quality and controls, audit expectations, access controls and electronic back-up requirements that are outlined.
Loans Originated in Electronic Form	DI's pledging loans that were originated in electronic form are not required to complete an addendum; but will need to review Appendix B to ensure that they are meeting the imaging quality and controls, audit expectations, access controls and electronic back-up requirements that are outlined.
Third-Party Custodian Arrangements	A DI may designate a third-party custodian ("TPC") to provide custody services for collateral pledged to the FRBNY. TPC arrangements involve the pledging DI and an institution the DI contracts to hold and / or manage its pledged loans. A DI that uses a TPC and wants to participate in the BIC program must first contact the FRBNY and request approval for this pledging arrangement. The TPC may be required to complete the agreement found in Appendix 5 of Operating Circular 10. This is required even if the TPC is an affiliate of the pledging DI. The agreement should not be altered by the pledging institution or the TPC. For additional information on TPC arrangements, contact the DW staff.
Storing Collateral Documents	Tangible Loans - All documents (e.g. notes and supporting documents) evidencing the pledged loans (including promissory notes if the loans are noted) must be stored in a fire-resistant, secured (e.g., keypad entry, lock) and controlled (e.g., limited access, log) environment. Electronic Loans –Loan files must clearly identify the obligor and/or obligation number for easy retrieval by FRBNY personnel and processes must ensure that a complete and a high-quality image of the promissory note and supplemental documentation is captured, if applicable. In addition, controls must be in place to prevent unauthorized alterations to and/or deletions of loan files and that a contingency plan be in place to prevent loss of files and other file data (e.g., regular data back-up). The DI should ensure that the electronic storage procedures as outlined in their internal policies are followed and that the audit report provided to the FRBNY (see Independent Audit Review section below) includes a review of the adherence to those policies.

Collateral Identification	Electronic and tangible loans must be clearly identified as being pledged to the FRBNY in the DI's general ledger or information management system. Additionally, if the loans are in tangible form, they must be physically segregated from other loan documents and at least one of the following is required: • Label on individual physical files indicating that the loans are pledged to the FRBNY; or • Label on file cabinets indicating that the loans are pledged to the FRBNY; or • Visible notice in specific custody area indicating that the loans are pledged to the FRBNY.
Establishing a New BIC Location	**A DI may not establish a new location (internally or externally) for its BIC loan files without prior written notification to and approval from the FRBNY.** The notification must be made at least 30 days prior to the intended move date in order to ensure the necessary protective measures are taken. A DI must request approval to internally or externally re-locate its BIC loan files by completing a New Location Questionnaire.
Damaged Loan Documentation	A DI must immediately contact DW staff if the promissory notes, loan agreements and other supporting documentation relating to the pledged loans are damaged due to a flood, fire or any other reason. The FRBNY will work with the DI to determine the extent of the damage and may make appropriate adjustments to the value of the collateral.
Collateral Reporting Requirements	A DI must provide a collateral schedule in the automated loan data (ALD) format each month or on a more frequent basis as deemed necessary by the FRBNY. ALD is the Federal Reserve's process for recording loan pledges at the individual loan detail level in its Collateral Management System (CMS). A separate file is required for each loan type (e.g., commercial loans, commercial real estate, home equity loans, etc.). In-Scope DIs In-scope institutions will send a plain text file of vertical pipe (|) separated fields containing the required loan fields on loans pledged as collateral. Detailed information can be found at the following link: In-Scope File Format Specifications and Definitions Out-of-Scope DIs Out-of-scope institutions will send either a fixed formatted text file or Excel spreadsheet. For those DIs who want to submit an Excel spreadsheet, please contact the DW staff for further instructions and a mapping template. **File formats should not be changed between submissions without prior approval from the DW.**
In-Scope vs Out-of-Scope DIs	The definition of in-scope is found under the **File Specifications** section of the Pledging Collateral page of frbdiscountwindow.org. Once an institution meets the criteria of being in-scope, it remains in-scope. Any DI that has not yet met the criteria of being in-scope is considered an out-of-scope institution.

Data Submission	The FRBNY requires that DIs use one of the following secure methods for transmitting information or documentation pertaining to pledged BIC loan collateral: Federal Reserve Secure Message Center (FRSecure provided by ZixMail), Intralinks or Email with Mandatory Transport Layer Solution ("TLS"). All pledge submissions should be sent to the FRBNY's BIC mailbox at the following e-mail address: BIC@ny.frb.org. Pledges will only be accepted from authorized pledgers listed on the institution's Official OC-10 Authorization List If your DI would like to use Intralinks or TLS, contact the DW staff for additional information. All pledge submissions should be submitted in a timely manner; zero collateral value may be assigned to DIs that do not submit its BIC Pledge Cover Letter and collateral schedule in a timely manner.
Collateral Updates and Monitoring	A BIC Pledge Cover Letter and updated collateral schedule must be submitted to the FRBNY monthly and at any time the outstanding principal balance of the pledged collateral declines by 10 percent or more from the date of the most recent collateral schedule submitted. The email accompanying an intra-month pledge should clearly indicate that there was a decline of 10 percent or more from the previous submission and provide a brief explanation of what caused the decline. If a decline of 10 percent or more coincides with the regular monthly pledge, please indicate this and the reason in the accompanying email. *For example: If the DI normally submits its pledge file on the first business day of the month and has a decline of 10 percent or more on the tenth business day of the month, the DI must promptly notify the FRBNY by updating its collateral schedule on the tenth business day. The DI **must not** wait until its next regularly scheduled monthly update. If the DI is not able to update its collateral schedule on the same day as the decline is detected, The DI should promptly contact DW staff by phone or send an e-mail to BIC@ny.frb.org. Contact information for DW staff is found on page seven of this document.* For DIs with multiple BIC arrangements (e.g. commercial loans, commercial real estate, consumer loans), the monitoring requirement is at the individual BIC arrangement level. Please note that it is also possible for a DI to have multiple BIC arrangements under one loan type. For example, a DI may have multiple commercial loan BICs such as floor plan loans, commercial loans, equipment lease commercial loans, etc. If your DI is not clear as to the number of BIC arrangements it has or what constitutes a separate BIC arrangement or monitoring requirements, please contact the DW staff for guidance. At a minimum, weekly monitoring is required. If your DI pledges a pool of loans for which the outstanding balance frequently fluctuates, daily monitoring may be more appropriate. Failure to properly monitor for and notify the FRBNY of declines of 10 percent or more between reporting dates may result in the termination of BIC privileges. The FRBNY will make every effort to promptly process collateral schedule updates. DIs can access real-time collateral information using the Account Management Information ("AMI") system. DIs may also subscribe to email delivery of collateral statements (see Statement of Collateral Holdings section).

Independent Audit Review	The FRBNY requires DIs to conduct and provide an audit report of their BIC collateral prepared by an internal or external auditor. The audit report should not exceed a period of 24 months. The audit must include a review and assessment of the DI's compliance with FRBNY's BIC requirements. The DI shall immediately notify the FRBNY of any irregularities discovered during any audits. A complete audit report, including any findings and management's response and corrective action plan, should be sent along with the annual BIC certification form. When establishing a BIC, the most recent audit report completed for that business area should be provided.
Certification Forms	The BIC certification ("Certification") form attests to the controls and other procedures in place to safeguard the pledged loans and related documentation. There are two certification forms, one for credit card receivables and one for all other loan types. To be considered for the BIC program, a DI must complete and submit an initial Certification, and thereafter, an updated Certification on an annual basis (every 12 months based upon the date of establishment of the BIC). It is the responsibility of the DI to keep track of its Certification due date. Zero collateral value may be assigned to DIs that do not submit an updated Certification form in a timely manner. If applicable, DIs should also submit the appropriate BIC certification addendum(s) (e.g., "Image and Destroy" or "Image and Store"). If your DI images and stores on-site (i.e., not with a third-party custodian, including an affiliate) then an image and store addendum is not required. It is a requirement that one or two (see note below) authorized individual(s) and an auditor sign off on the certification form. In the case where the DI does not have an internal audit department, a director or a senior level officer that is not directly responsible for DW borrowing or collateral pledging may sign the form. *Note: The number of authorized signers required on the certification depends on the designation provided in the OC10 Authorizing Resolutions for Borrowers on file with the FRBNY.* **Handwritten certifications and older versions of the forms will not be accepted.**
Periodic Reviews	All BIC arrangements require periodic review by FRBNY staff of the loan documentation and operational controls supporting the arrangements. The frequency of the review will be at the discretion of the FRBNY, but will generally depend on the DIs financial condition, identified operational control weaknesses, or documentation issues relating to the BIC program. The purpose of the review is to validate that the DI is in compliance with BIC program requirements. The review will cover a number of program requirements, including, but not limited to: (1) verification of pledged collateral and reported key metrics such as maturity date, loan balance, interest rate; (2) properly maintained loan documentation; and (3) other responses on the Certification form that may need review. All reviews will be conducted with relatively short notice to the DI, to ensure a review of actual current conditions and practices. At the discretion of the FRBNY, reviews will either be conducted on a remote or on-site basis. The duration of a review will depend on, among other things, the number of pledged loans. a. **Remote Review**: Requires the DI to electronically deliver requested loan documentation to the FRBNY to be reviewed in-house.

	b. **On-Site Review:** Requires the DW reviewer to travel to the DI's BIC site to review the requested loan documentation. During the review, DIs are expected to promptly respond to any issues found and submit additional documentation as needed. Following the review, FRBNY staff will formally document any findings and recommendations in a letter to the DI. The DI must promptly correct each exception found, if not already corrected during the review, or remove the problematic loan(s) from the pledge by submitting a new collateral schedule excluding all such loans. If the review uncovers severe breaches of the BIC program requirements, participation in the program may be suspended or terminated.
Statement of Collateral Holdings	Consolidated collateral statements that report all DW pledges, including loans and securities, are available to DIs, upon request. To request collateral statements, a DI must complete a CMS Reports Request Form for each intended recipient. It is the responsibility of the DI to manage who has access to collateral statements and inform the FRBNY when distribution changes need to be made.
BIC Terminations and Temporary Actions	A DI may either temporarily withdraw or terminate its BIC by submitting a BIC Termination Withdrawal Form. DW staff will review the request and confirm that there are no outstanding loans before releasing the collateral to the DI. A temporary withdrawal can be for up to twelve months. If at the end of twelve months the DI has not re-pledged eligible collateral, the BIC will be considered terminated. Additionally, the FRBNY may temporarily remove collateral value from a BIC due to findings during a BIC documentation review, certification review, audits, etc. If the reason for removing collateral value is not addressed by the DI within the agreed upon timeframe, the BIC may be terminated. To re-establish a terminated BIC, the DI should contact DW staff.
Discount Window Contact Information	Toll-free Phone Number: 866-226-5619 General E-mail address for non-BIC-related inquiries: Discount.Collateral@ny.frb.org E-mail address for BIC pledges: BIC@ny.frb.org Mailing Address: Federal Reserve Bank of New York, Discount Window Staff, 33 Liberty Street; New York, NY 10045

Appendix A

Below is a list of minimum required supporting documentation by loan type. For loan type definitions please consult FFIEC and NCUA call report codes which can be found in the **Loan Types and Call Report Mapping** section of the Pledging Collateral page of the national DW website.

Minimum documentation requirements are subject to change and the FRBNY reserves the right to request additional supporting documentation evidencing the debtor's obligation, including payment status and history. If a loan is noteless; a note need not be provided; if a loan is unsecured or not guaranteed, a security agreement or guaranty agreement need not be provided.

Please note that references to the credit agreement include loan agreements, participation agreements, syndication agreements, or any other agreement that details the terms and conditions of the loan.

Any modifications, amendments and addendums to the supporting documentation should also be included in your files.

Evidence of recording is required for all documents that are required to be recorded.

Margin Category	Required Documentation May Include
Agricultural Loans	• Promissory Note • Credit Agreement • Recorded Mortgage/Deed of Trust • Assignment and Assumption Agreement • Security Agreement • Guarantor Agreement • Appraisal • Crop insurance • Documentation evidencing borrower's payment status/history
Commercial and Industrial Loans & Leases	• Promissory Note • Credit Agreement • Allocation/Commitment schedule for participations and syndications • Assignment and Assumption Agreement • Lease Agreement • Security Agreement • Guarantor agreement • Documentation evidencing borrower's payment status/history

Commercial Real Estate Loans	• Promissory Note • Credit Agreement • Allocation/Commitment schedule for participations and syndications • Assignment and Assumption Agreement • Recorded Mortgage/Deed of Trust • Lease Agreement • Security Agreement • Guarantor Agreement • Documentation evidencing borrower's payment status/history
Construction Loans	• Promissory Note • Credit Agreement • Allocation/Commitment schedule for participations and syndications • Assignment and Assumption Agreement • Recorded Mortgage/Deed of Trust • Lease Agreement • Security Agreement • Guarantor Agreement • Documentation evidencing borrower's payment status/history
Raw Land Loans	• Promissory Note • Credit Agreement • Allocation/Commitment schedule for participations and syndications • Assignment and Assumption Agreement • Recorded Mortgage/Deed of Trust • Lease Agreement • Security Agreement • Guarantor Agreement • Documentation evidencing borrower's payment status/history
U.S. Agency Guaranteed Loans	• Promissory Note • Credit Agreement • Allocation/Commitment schedule for participations and syndications • Assignment and Assumption Agreement • Documentation evidencing borrower's payment status/history

One-to-Four Family Mortgage Loans (First Lien)[i]	• Promissory Note • Recorded Mortgage/Deed of Trust • Title Policy, Attorney Certificate, or Torrens Certificate • Appraisal • Homeowner's Insurance Coverage • Evidence of Private Mortgage Insurance Coverage if LTV is greater than 80% • Evidence of property tax payment • Documentation evidencing borrower's payment status/history
One-to-Four Family Mortgage Loans (Second Lien, Home Equity)[i]	• Promissory Note • Recorded Mortgage/Deed of Trust • Appraisal
Consumer Loans & Leases (auto, boat, etc.)	• Promissory Note • Installment Contract • Credit Application • Documentation evidencing borrower's FICO score • Documentation evidencing borrower's payment status/history • Credit Agreement • Guaranty Agreement • Security Agreement • Loan Agreement • Lease Agreement • Recorded Mortgage/Deed of Trust • Marine Mortgage • Title
Consumer Loans Unsecured	• Promissory Note • Installment Contract • Credit Application • Documentation evidencing borrower's FICO score • Documentation evidencing borrower's payment status/history
Credit Card Receivables	• Credit Application • Documentation evidencing borrower's FICO score • Documentation evidencing borrower's payment status/history
Credit Card Receivables Subprime	• Credit Application • Documentation evidencing borrower's FICO score • Documentation evidencing borrower's payment status/history

Student Loans	• Promissory Note • Credit Application • Documentation evidencing borrower's FICO score • Documentation evidencing borrower's payment status/history
Obligations of States & Political Subdivisions (municipalities)	• Promissory Note • Credit Agreement • Allocation/Commitment schedule for participations and syndications • Assignment and Assumption Agreement • Lease Agreement • Security Agreement • Guarantor agreement • Documentation evidencing borrower's payment status/history

[i] A mortgage loan originated by another organization, including an affiliate mortgage company, and subsequently purchased by an institution will be eligible collateral under the BIC program only if (i) the note has been properly endorsed and (ii) the mortgage has been assigned to such institution. A mortgage that is in the name of the mortgage company or an affiliate is not eligible under this BIC program unless the institution provides evidence acceptable to the FRBNY that it has legal title to the mortgage.

A mortgage loan originated by another organization that was subsequently acquired by an institution will be eligible collateral under the BIC program only if such institution provides evidence acceptable to the FRBNY that the mortgage loan (i) was subject to the acquisition transaction and (ii) is owned by such institution. In the case of any merger that resulted in a name change, an institution should provide evidence of the merger to affirm that such institution is in fact the successor and sole owner of the pledged mortgage loan.

Appendix B - BIC Imaging Requirements

Introduction

The FRBNY accepts pledges of "imaged loans" from qualifying DIs. An imaged loan is a loan that was originated in tangible form and has then been converted to an electronic copy and the original paper copy has been stored away for safekeeping or has been destroyed. The storage of the original paper copies can be at the pledging DI's facility or may be stored at a third-party custodian, which includes a Records and Information Management company ("RIM") or an affiliate.

DI's wishing to pledge imaged loans to the FRBNY generally must complete either, the "Image and Destroy" or "Image and Store" BIC certification addendum, which includes questions about the processes, procedures, and controls the pledging institution has established to ensure that its loan documentation is securely maintained. If your institution destroys loan documentation only after the loan has been paid off, you are not required to complete an image and destroy addendum. However, you may be required to complete an image-and-store addendum to attest to your safekeeping process while the loans are still active and pledged to FRBNY. Similarly, if your institution images and stores on-site (i.e., not with a third-party custodian, including an affiliate) then an image and store addendum is not required.

Imaging Process and Quality Control

Pledged loans must be maintained in compliance with BIC program requirements at all times. For DIs that use an image-and- destroy procedure for pledged loans, this includes before and during the imaging process. For DIs that use an image-and-store procedure for pledged loans, this includes before, during and after the imaging process. Loan documentation sent externally for imaging should not be pledged until the imaging process is complete and verified by the DI.

Robust controls must be in place to ensure that a complete and a high-quality image of the promissory note and supplemental documentation is captured, and to prevent unauthorized alterations to and/or deletions of the imaged documents.

Audit Expectations

The FRBNY requires the pledging institution to have an audited loan documentation imaging process. Periodic reviews of image-and-destroy and image-and-store processes should be conducted as part of the pledging institutions overall audit of the institution's compliance with BIC program requirements to be conducted at least every two years. The pledging institution shall immediately notify the FRBNY of any irregularities discovered during any audits. The audit must include a review and assessment of compliance with all BIC imaging and storage requirements, including an assessment of third-party custodian processes if applicable. A complete audit report including any findings and management's response and corrective action plan must be included with the annual BIC certification form.

Access to Imaged Documents

Imaged document file names must clearly identify the obligor and/or obligation number for easy retrieval by FRBNY personnel.

Electronic Back-Up

A robust contingency plan must be in place to prevent loss of imaged files and other file data, including a regular schedule for replicating images to serve as back-up copies.

Destruction or Storage of Original Paper Documents

Once original paper documents have been imaged, they may be destroyed or stored at a third-party custodian. Based on the protocol adopted by the pledging institution, the process must include:

1) Destroyed: Prior to the destruction of the original documents, institutions shall maintain such documents in accordance with BIC program requirements if pledged to the FRBNY. The pledging institution must monitor and verify that the original documents are completely destroyed within six months of imaging and a log or receipts evidencing the completion of the destruction process are retained for as long as the loans evidenced by the documents are pledged to the FRBNY.

2) Stored at a third-party custodian (e.g., a RIM or an affiliate): Prior to the storage of the original documents at a third-party custodian, institutions shall maintain such documents in accordance with BIC program requirements if pledged to the FRBNY. Loans should not be pledged to the FRBNY while supporting documentation is in-transit to a third-party custodian unless a verified image has been captured prior to shipment. Opting to store original paper documents at a third-party custodian does not excuse the pledging institution from taking the necessary steps to ensure that the documents are protected from loss, fire, theft, and other dangers at the third-party custodian. The FRBNY expects the pledging institution to periodically inspect the third-party custodian's premises and verify appropriate storage of pledged loan documents. FRBNY staff may require submission of documentation evidencing the pledging institution's inspections of the third-party custodian's premises.

For pledged loans maintained at a third-party custodian, the location / box numbers of these stored documents must be included with the "Image and Store" BIC certification addendum. In addition, the FRBNY expects generally infrequent recall of pledged loans from a third-party custodian by the pledging institution.

The FRBNY expects the pledging institution to ensure its third-party custodian will (and Appendix 5 of Operating Circular No. 10 requires the third-party custodian to agree to):

- Allow the FRBNY the right at any time to inspect and, upon demand, the right to remove and take possession of the pledged collateral;
- Upon FRBNY's request, provide to the FRBNY any copies of reports pertaining to the collateral that are provided to the pledging institution;
- Follow any other of FRBNY's instructions with regard to the pledged collateral to the extent the instructions would have been within the scope of the pledging institution's power set forth in its agreement with the third-party custodian, all without first receiving the consent or permission from the pledging institution; and
- Agree that all representations, warranties and covenants, and agreements regarding access to or information about the pledged collateral, made by the third-party custodian in its agreement with the pledging institution shall inure to the benefit of the FRBNY, without consent of the pledging institution.

The use of a third-party custodian requires the completion of the Form of Agreement for Third Party Custodian to Hold Collateral, which can be found in Appendix 5 of Operating Circular No. 10. For more information, please contact FRBNY staff at Discount.Collateral@ny.frb.org.