

Introduction¹

The Federal Reserve Bank of New York (“FRBNY”) accepts pledges of “imaged loans” from qualifying institutions. An imaged loan is a loan whose original paper documentation has been imaged, and the image is relied upon as the primary source of this document. The original documentation associated with an imaged loan may be destroyed (exception as described below) or may be stored at a third-party custodian, which includes a Records and Information Management company (“RIM”) or an affiliate. To remain eligible for pledge to the FRBNY, original documents that are Uniform Commercial Code (“UCC”) Article 3 negotiable instruments (e.g., mortgage notes) may not be destroyed. A loan that was originated in electronic or paperless forms is not an imaged loan for the purposes of these requirements.

If an institution wishes to pledge imaged loans, the pledging institution 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. Note: 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.

Imaging and Storage Requirements

Imaging Process and Quality Control

Pledged loans must be maintained in compliance with BIC program requirements at all times, including during 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.

¹ Prior to or concurrent with setting up an imaging arrangement, an institution must establish a Borrower-in-Custody (“BIC”) arrangement. For more information on the BIC program, please review the relevant [BIC requirements and forms](#).

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 image 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. Please note, to remain eligible for pledge to the FRBNY, original documents that are UCC Article 3 negotiable instruments (e.g., mortgage notes) may not be destroyed.

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:

- 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.