



<b>POLICY TITLE</b>	<b>Responsible Lending Policy</b>
<b>EFFECTIVE DATE</b>	<b>06/19/2009</b>

## **1. PURPOSE OF THE POLICY**

In fulfilling its housing mission the Federal Home Loan Bank of New York (“FHLBNY”) supports the expansion of fair, equitable, affordable and accessible home ownership opportunities through the broad based community lending activities of its member lenders. The FHLBNY advocates lending practices that are designed to responsibly service and enhance credit access for both prime and subprime borrowers, including those with long term affordability credit needs. Providing accessible and affordable credit to borrowers at varying economic levels and life stages is a critical contributor to the overall success of all communities. The FHLBNY does not support predatory and abusive lending practices which are inconsistent with such opportunities. As such, the FHLBNY established anti-predatory lending policies with respect to residential mortgage loans and securities backed by residential mortgage loans.

The availability of diverse residential mortgage loan products, including those with non-traditional characteristics or extended to subprime borrowers, has created more opportunities for a wider range of borrowers to purchase a home. Most of these alternative mortgage products are, by themselves, not considered undesirable, but rather it is the unsuitability of these products for certain borrowers that may create undesirable results for both the borrower and the lender. This policy establishes the FHLBNY’s support for appropriate and responsible lending that meets the diverse credit needs of the marketplace that members serve.

## **2. POLICY STATEMENT**

The FHLBNY requires that residential mortgage loans or securities backed by residential mortgage loans, that are pledged as collateral for advances, or that are purchased by the Bank for investment purposes, comply with applicable federal, state and local lending laws and other similar credit-related consumer protection laws, regulations, orders and regulatory guidance designed to ensure responsible and suitable lending practices. With respect to the use of non-traditional loan products and lending to individuals who are subprime credits and/or who have affordability credit needs, FHLBNY expects members to adhere to the provisions of the *Interagency Guidance on Nontraditional Mortgage Products Risks* ( published October 4, 2006) and the *Statement on Subprime Mortgage Lending* (published July 10, 2007), (collectively “*Interagency Guidance*”). Members will be required to certify their continued compliance with interagency guidance.

**The attributes of nontraditional and subprime mortgage loans are defined as follows:**

**Nontraditional Mortgage Loans:** *Mortgage loan products that allow borrowers to defer repayment of principal and/or interest.*

These loan products may - allow borrowers to exchange lower payments during an initial period for higher payments during a later amortization period, resulting in or creating the potential for negative amortization. They include such products as interest-only loans, negative amortization loans and payment option loans. These products present additional risks when combined with

features likely to encourage frequent refinancing to maintain an affordable monthly payment and other features such as simultaneous second-lien loans; below market introductory rates; and more relaxed underwriting practices (e.g.; undemonstrated repayment capacity of the borrower; underwritten to less than the fully indexed rate; reduced documentation of income and asset verification requirements). Non-traditional mortgage loans, especially when combined with risk layering characteristics, may result in increased risk relative to traditional residential mortgage loan products.

**Subprime Mortgage Loans:** *Mortgage loans extended to borrowers who, at the time of loan origination or purchase, exhibit a credit history and financial characteristics indicating a higher probability of default than borrowers who have consistently demonstrated the financial capacity to service the debt.*

Subprime borrowers typically have weakened credit histories that include payment delinquencies and possibly more severe problems such as charge-offs, judgments, foreclosures, repossessions and bankruptcies. They may also display reduced repayment capacity as measured by credit scores, debt-to-income (“DTI”) ratios, or other criteria that may encompass borrowers with incomplete credit histories. For the purpose of this policy, subprime residential mortgage loans are loans to borrowers generally displaying one or more of the following characteristics at the time of origination or purchase of the loan:

- Two or more 30-day delinquencies in the last 12 months, or one or more 60-day delinquencies in the last 24 months, for a prior mortgage as evidenced by a credit report;
- Judgment, foreclosure, repossession, or charge-off in the prior 24 months;
- Bankruptcy in the last 5 years;
- Relatively high default probability as evidenced by, for example, a credit bureau risk score (FICO) at 660 or below (depending on the product/collateral), or other bureau or proprietary scores with an equivalent default probability likelihood;
- Debt service-to-income ratio of 50% or greater or otherwise limited ability to cover family living expenses after deducting total monthly debt-service requirements from monthly income.

#### **Exposure Mitigation (Limits) for Nontraditional and Subprime Loans:**

The FHLBNY will not accept as collateral, nor purchase as investments, mortgage loans or securities back by mortgage loans that do not comply with applicable laws and regulations including the Interagency Guidance. However, the FHLBNY will provide support to its members who have responsible lending practices that address the needs of borrowers, in a manner that is suitable for each borrower’s particular credit and financial profile as well as their demonstrated capacity to service debt.

Due to the higher risk elements of nontraditional and subprime mortgage products, especially when combined with other risk layering features as articulated in the definitions, there is a greater potential for heightened risk levels as compared to traditional mortgage products. The Bank has established policies and risk mitigation practices to manage these risks while also continuing to provide member support for responsible lending activity at varying borrower economic levels.

**With respect to Advances:** The Bank will accept as collateral, mortgage loans or securities backed by mortgage loans that have nontraditional and or subprime characteristics and that

comply with applicable laws, regulations and the Interagency Guidance. Limits on the use of nontraditional or subprime mortgage-related assets as collateral supporting advances will be addressed, in part, through the discounts applied to such collateral (haircuts and/or valuation adjustment factors). Higher level discounts will be applied for subprime and nontraditional mortgage loans due to higher risk characteristics. To further limit its risk exposure to potential subprime mortgage loans in the residential mortgage collateral portfolio, the Bank will allow no more than 25% of that collateral portfolio to be concentrated in loans having FICO scores at or below 660. To further limit its risk exposure to potential nontraditional mortgage loans in the residential mortgage portfolio, the Bank will allow no more than 40% of that portfolio to be concentrated in loans that allow borrowers to defer payment of principal and/or interest.

The pledge of a private-label MBS (“PLMBS”) issued after July 10, 2007 must be accompanied by an enforceable representation and warranty from the issuer, stating that the residential mortgages included in the underlying collateral comply with the Interagency Guidance. To determine eligibility (initial and ongoing), an analysis of the underlying asset composition and performance, for private label MBS, is conducted at time of pledge, as well as on a regular basis thereafter. Higher level discounts will be applied for private label MBS with underlying asset pools that contain a high concentration of subprime and nontraditional loans exhibiting higher risk characteristics. To further limit its risk exposure to potential subprime mortgage loans in the PLMBS collateral portfolio, the Bank will allow no more than 25% of that collateral portfolio to be concentrated in loans having FICO scores at or below 660. To further limit its risk exposure to potential nontraditional mortgage loans in the PLMBS collateral portfolio, the Bank will allow no more than 25% of that portfolio to be concentrated in loans having actual or potential for negative amortization.

**Advances Collateral Certification** – All borrowing members must certify that residential mortgages that were originated or acquired by a Member after July 10, 2007 and pledged as collateral, must comply with all aspects of the Interagency Guidance. The member also certifies that mortgages pledged as collateral comply with all applicable laws and regulations. Testing for compliance is incorporated into our On-Site Review Process. Mortgages found to be out of compliance are deemed ineligible. Re-affirmation of compliance certification will be required from each member pledging residential mortgage loans at least once every two calendar years.

**With respect to Acquired Mortgage Assets:** For mortgage loans purchased as investments through the Mortgage Partnership Finance program (“MPF”) the FHLB NY does not purchase nontraditional mortgages, as defined in this policy. All loans are fully amortizing fixed-rate mortgages. In addition, based on the credit history requirement at time of origination or purchase, and the subsequent demonstrated low delinquency and very low loss experience in the MPF portfolio to date, the FHLB NY does not purchase subprime mortgages. However, based on the strict definition of this policy, MPF mortgage loans may, at the time of origination or purchase, exhibit one or more subprime characteristics (including a FICO score that is at or below 660 at the time of loan origination). These mortgage loans are eligible for purchase as long as they are in compliance with applicable laws and regulations, including the Interagency Guidance, and they conform to the underwriting standards set forth within the MPF Origination and Underwriting Guide.

Each MPF loan purchased is assessed through the Standard and Poors “Levels” model and a credit enhancement requirement is assigned based on the risk characteristics of the loan. To

further limit its risk exposure to potential subprime mortgage loans in the MPF portfolio, the Bank will allow an exposure of no more than 20% of conventional loans having FICO scores at or below 660, and no more than 40% of the conventional loans within the MPF investment portfolio to be concentrated in loans with low documentation standards applied at time of origination. Testing for compliance is incorporated as part of the quality control process conducted through the MPF Provider and supplemented by additional quality control reviews requested by the Bank. Mortgages found not to be in compliance with the MPF Guides will be required to be repurchased.