



POLICY TITLE	Responsible Lending Policy		
POLICY TYPE	Management Policy		
GROUP	Risk Management	Policy Number	MP-RM-009
		Approval Date	12/19/2024
DIVISION/DEPARTMENT	Credit Risk Management	Effective Date	12/19/2024
		Last Revision	12/12/23
Principal Officer	Chief Risk Officer		
Policy Owner	Chief Credit Risk Officer		

1. PURPOSE OF THE POLICY

1.1 This Policy supplements the Compliance Policies provisions for the FHLBNY to have in place a Responsible Lending Policy as part of its credit risk management program that addresses (a) the prohibition of accepting investments, mortgage loans or securities and mortgage collateral pledged with Predatory Lending characteristics and (b) incorporates risk limits for and appropriate mitigation of credit exposure on nontraditional and subprime loans specific to:

- (a) Acquired Member Assets;
- (b) Collateral securing advances;
- (c) Collateral for members and housing associates;
- (d) Loan losses and asset reserves; and
- (e) Private label mortgage-backed securities.

1.2 This policy supersedes and replaces the FHLBNY Board Policy RM-04-09 “*Responsible Lending Policy.*”

2. POLICY SCOPE

2.1 The FHLBNY is committed to a comprehensive Responsible Lending program that is approved by Senior Management. It is the policy of the FHLBNY to comply fully and completely with applicable statutory and regulatory requirements regarding:

- (a) The acceptance of Nontraditional and/or Subprime Mortgage Loans pledged as collateral for advances;
- (b) The purchase of Nontraditional and/or Subprime Mortgage Loans under the FHLBNY’s Acquired Member Assets program (“AMA”).
- (c) The purchase of investment securities with underlying Nontraditional and/or Subprime Mortgage Loans; and

- (d) The prohibition of accepting residential loans for collateral or investment purposes having Predatory Lending characteristics.

2.2 This policy supplements the FHLBNY's Board Compliance Policy and is supported by the following policies:

- (a) Credit Risk Management Policy,
- (b) Loan Loss and Asset Reserve Policy,
- (c) Investments Policy,
- (d) Acquired Member Asset Acquisition, Pricing and Eligibility Policy, and
- (e) Collateral for Members and Housing Associates.

2.3 The FHLBNY will not accept as collateral or purchase as investments, mortgage loans or securities backed by mortgage loans that do not comply with applicable laws and regulations nor will it accept such collateral having Predatory Lending characteristics.

3. **POLICY STATEMENT**

3.1 The FHLBNY shall at all times have in place a responsible lending program that maintains adequately designed and effective internal controls geared towards:

- (a) Prohibiting the acceptance as collateral or the purchase as investments, mortgage loans or securities backed by mortgage loans that do not comply with applicable laws and regulations including the Interagency Guidance;
- (b) Providing 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;
- (c) Complying with applicable federal, state and local lending laws and other similar credit-related consumer protection laws, regulations, orders and regulatory guidance designed to prevent or regulate abusive and deceptive lending practices and loan terms, and to ensure responsible and suitable lending practices;
- (d) Communicating the FHLBNY's expectations that members adhere to the provisions of the Interagency Guidance regarding the use of Nontraditional and Subprime loan products and lending to individuals who are subprime credits and/or who have affordability credit needs; and
- (e) Obtaining periodic certifications from members indicating their continued compliance with applicable laws, regulations and regulatory guidance.

3.2 The elements and requirements of the responsible lending program shall be made available to all members through the FHLBNY website.

4. **POLICY ADMINISTRATION**

4.1 Authority – Authority to implement the provisions of this policy have been delegated by the Chief Executive Officer (“CEO”) to the Chief Risk Officer (“CRO”) and the Chief Business Officer (“CBO”) by a delegation made outside of this policy. At the discretion of the CRO and the CBO, these authorities can be further delegated to other officers of the Bank.

4.2 Responsibility and Accountability

- (a) President** – is responsible for the execution of all Bank credit functions and although management-level committees are identified in this policy, the President retains the delegation from the Board to change committee structures at the President’s discretion.
- (b) Management Committee (“MC”)** – responsibilities include, but are not limited to, managing the Bank's risk appetite and risk tolerances so that they are appropriately defined, developed, and managed, including designing the Bank’s credit extensions to be in accordance with FHFA regulations and the Bank’s risk appetite. The MC is responsible for approval of this policy.
- (c) The Enterprise Risk Committee (“ERC”)** is a sub-committee of the Management Committee. The ERC shall oversee the Bank’s credit risk to manage and monitor the risk in a safe and sound manner. The ERC recommends approval of this policy to the MC. Additionally the ERC must review credit reports regarding the FHLB NY’s exposure to risks associated with Nontraditional and Subprime Mortgage Loans.
- (d) Credit and Collateral Risk Committee (“CCRC”)** – is a sub-committee of the Enterprise Risk Committee responsible for establishing a framework addressing the assessment and management of the Bank’s credit exposures across products, investments, and relationships. The CCRC shall recommend changes to the Bank’s credit and collateral risk strategies, recommend any changes to the Bank's credit and collateral policies, and manage within the Bank’s risk appetite.
- (e) The Chief Risk Officer** shall, in accordance with delegated authority from the FHLB NY’s President and CEO oversee:
 - (i)** The assessment of the FHLB NY’s risk exposure to Nontraditional and Subprime mortgage risks.
 - (ii)** Establish appropriate credit risk limits for accepting Nontraditional and Subprime mortgages pledged as collateral for advances or for accepting investments, mortgage loans and securities with underlying Nontraditional and Subprime mortgages.
 - (iii)** Ensure the related risk assessment and reports are vetted through the various subcommittees of the Management Committee as required.

- (iv) Ensure a zero tolerance for accepting mortgage loans as collateral for advances or investment instruments supported by mortgages having Predatory Lending characteristics.
- (f) **The Director Collateral Risk Management** – shall, in accordance with delegated authority from the CRO:
 - (i) Ensure that appropriate collateral review processes are in place for accepting Nontraditional and Subprime mortgages to secure advances and prohibiting the acceptance of mortgage collateral with Predatory Lending characteristics in accordance with the provisions and standards of this policy.
 - (ii) Ensure a zero tolerance for accepting mortgage loans as collateral for advances or investment instruments supported by mortgages having Predatory Lending characteristics.
- (g) **The Senior Manager of Credit Risk Management** – shall, in accordance with delegated authority from the CRO:
 - (i) Prepare and present credit risk reports to the CRO summarizing the FHLBNY’s exposure to risks associated with Nontraditional and Subprime Mortgage Loans (including appropriate risk limits).
 - (ii) **The Director of Acquired Member Assets** – shall, in accordance with delegated authority from the Chief Business Officer ensure that:
 - Appropriate collateral review processes are in place so that no Nontraditional, Subprime mortgages or mortgages with Predatory Lending characteristics are accepted into the AMA programs in accordance with the provisions and standards of this policy; and
 - A zero tolerance for accepting mortgage loans as investment instruments supported by mortgages having Predatory Lending characteristics.
- (h) **Business Unit Management and Staff** – responsible for adhering to and implementing credit risk management-related policies and procedures in support of the Bank’s articulated risk appetite.

4.3 Applicability

- (a) The provisions of this policy apply to all Bank employees.
- (b) Waivers to this Policy are subject to the provisions of the Compliance Policy.
- (c) Non-compliance with this policy is subject to exception reporting pursuant to the provisions of the Bank's Compliance Policy and Exception Procedure.

5. POLICY STANDARDS

- 5.1 **Advances Collateral** – During the course of FHLBNY’s normal collateral on-site visits, the selected mortgage files will be reviewed to confirm compliance with provisions of

this policy, and the processes governing the FHLBNY's residential on-site review process. Compliance monitoring shall include:

- (a) Reviewing members' regulatory examination reports, if available, for findings pertaining to unfair and/or abusive lending practices - by Credit Risk Management;
- (b) Monitoring of members' regulatory alerts for newly issued supervisory agreements, memoranda of understanding, or cease and desist orders pertaining to unfair and/or abusive lending practices - by Credit Risk Management;
- (c) Pledgors (including members' pledging subsidiaries and/or affiliates) are required to execute representations and warranties and indemnification agreements with the FHLBNY; and
- (d) Collateral Valuations shall perform annual anti-predatory loan screening for pledged residential mortgage loans.

5.2 Acquired Member Assets – The FHLBNY will take all steps deemed necessary in order to confirm or monitor the Participating Financial Institutions' ("PFI") compliance with the provisions and standards of this policy on a pre- and post-purchase basis, as outlined in the procedures governing anti-predatory lending processes for AMA to ensure that members have established anti-predatory lending policies indicating that loans of this type are not presented for purchase or funding. In addition, the FHLBNY shall:

- (a) Review members' regulatory examination reports for findings pertaining to unfair and/or abusive lending practices;
- (b) Monitor members' regulatory alerts for newly issued supervisory agreements, memoranda of understanding or cease and desist orders pertaining to unfair and/or abusive lending practices;
- (c) Require the repurchase of ineligible mortgages sold to the FHLBNY by a member within thirty (30) business days after notice by the Bank or MPF[®] Provider, and the Bank and MPF[®] Provider will accomplish the repurchase in accordance with repurchase requirements as outlined in the AMA Guides;
- (d) Require the member to make the FHLBNY whole for any losses or costs incurred during the time the mortgage was held by the FHLBNY.

5.3 Mortgage-Backed Security ("MBS") Investments – The FHLBNY limits its purchases of residential MBS only to US Agency issues.

5.4 Failure to Comply – In the event the FHLBNY knows or discovers that certain residential mortgage collaterals pledged by a Member do not conform with the provisions and standards of this policy, the FHLBNY may, in addition to all available rights and remedies at law or in equity:

- (a) Assign a zero value to such collateral;
- (b) Require the pledgors to substitute eligible collateral; and

- (c) Require the pledgors to undertake a review of their policies, practices and procedures to ensure compliance with the provisions of this policy and other FHLBNY collateral policies.

5.5 Non-compliance with this policy is subject to exception reporting to the Board and Management Committee, each of which has the discretionary authority to take appropriate action.

6. **DEFINITIONS**

6.1 **Principal Officer** is an individual delegated the responsibility for developing policies or procedures by means of formal delegation of authority from the President.

6.2 **Policy Owner** is an individual identified as a subject matter expert by a Principal Officer and to who the authority is delegated (in writing) to develop, implement and enforce policies and procedures within an area of the Bank.

6.3 **Members** are defined as those entities which the Bank has approved for membership under the Bank's Membership Entry Policy. In general, there are four categories of members: banks; credit unions, insurance companies, and non-depository CDFIs. Members do not include housing associates and counterparties, although a Member may also act as a counterparty.

6.4 **Nontraditional Mortgage Loans** are mortgage loan products that allow borrowers to defer repayment of principal and/or interest. These products include, but are not limited to interest only, negative amortization and payment option loans but exclude home equity loans, home equity lines of credit and government insured loans.

6.5 **Predatory Lending / Residential Mortgages with predatory lending characteristics** for purposes of this policy following practices and characteristics apply:

- (a) Residential mortgage loans that require borrowers to obtain prepaid, single premium credit life, disability unemployment or other similar credit insurance.
- (b) Residential mortgage loans that charge prepayment penalties for early payoff beyond the first five years or that may be more restrictive under state laws regarding prepayment penalties with which members must comply.
- (c) AMA loans with mandatory arbitration clauses and residential mortgage loans with an effective origination date of October 1 2004, or thereafter, containing mandatory arbitration clause with respect to dispute arbitration clauses unless such clauses are either:
 - (i) In compliance with applicable state lending laws; or
 - (ii) Not explicitly enforced in accordance with member corporate policies.
- (d) Residential mortgage loans that exceed the annual percentage rate, or points and fee

thresholds of the Home Ownership and Equity Protection Act of 1994 and Federal Reserve Board Regulation Z, whether individually, as part of a loan pool or as underlying collateral in a mortgage backed security at the time the loan was made.

6.6 Senior Management – means the current members of the FHLBNY’s Management Committee.

6.7 Subprime Mortgage Loans – means 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 capacity to service debt. Subprime borrowers typically have weak credit histories including delinquencies, charge-offs, judgments, foreclosures, repossessions and bankruptcies. Excluded from this category are home equity loans, home equity lines of credit and government insured loans.

7. GETTING HELP

IF YOU NEED HELP WITH	CONTACT
Questions about this policy	Chief Credit Risk Officer
Questions about collateral	Director, Collateral Risk Management
Questions about Acquired Member Assets	Director, Mortgage Asset Program
Questions about internal controls and exception reporting	Operational Risk and Compliance Department
Statutory & Regulatory interpretations	Legal Department
Training for staff	Chief Credit Risk Officer, Senior Manager of Credit Risk Management

8. REFERENCES

8.1 Regulation and Regulatory Guidance

- (a) 12 C.F.R. Part 1236 (Prudential Management and Operations Standards)
- (b) 12 C.F.R. Part 1239.11 (Risk Management)
- (a) 12 C.F.R. Part 1263 (Members of the Banks)
- (b) 12 C.F.R. Part 1266 (Advances)
- (c) 12 C.F.R. Part 1268 (Acquired Member Assets)
- (d) FHFA Advisory Bulletin 2005-AB-08 – *Guidance on Federal Home Loan Bank Anti-Predatory Lending Policies*
- (e) FHFA Advisory Bulletin 2007-AB-01 – *Nontraditional and Subprime Residential Mortgage Loans*
- (f) FHFA Advisory Bulletin 2008-AB-02 – *Application of Guidance on Nontraditional and Subprime Residential Mortgage Loans to Specific FHLBank Assets*
- (g) FHFA Advisory Bulletin 2010 AB-01 – *Clarification of Advisory Bulletin 2008-AB-02*
- (h) FRB, FDIC OTS, OCC and NCUA - Interagency Guidance on Nontraditional Mortgage Product Risks
- (i) FRB, FDIC OTS, OCC and NCUA –Interagency Guidance on Subprime

Lending, March 1999 and expanded guidance for Subprime Lending Programs

- (j) FRB – *Statement on Subprime Mortgage Lending*
- (k) FRB Regulation Z at 12 C.F.R. § 226.36 – Prohibited acts or practices in connection with credit secured by a dwelling
- (l) Home Ownership and Equity Protection Act of 1994
- (m) Servicemembers Civil Relief Act, as amended

8.2 Policies

- (a) Acquired Member Assets- Acquisition and Eligibility (ME-03-05)
- (b) Collateral for Members and Housing Associates Policy (MP-ME-05)
- (c) Credit Risk Management Policy (RM-04-11)
- (d) Investments Policy (ALM-01-02)
- (e) Loan Loss Reserve and Asset Review Policy (RM-04-06)
- (f) Member Monitoring and Escalation Policy (MP-RM-001)

8.3 Procedures

- (a) Annual Anti-Predatory Lending (“APL”) Screening (SOP-561-0230)
- (b) Compliance Monitoring for Responsible Lending Policy (SOP 560-0095)
- (c) Income Producing On-Site Review Process (SOP 561-0040)
- (d) Monitoring and Escalation of Banks, Credit Unions, Insurance Companies, Non-Depository CDFIs, and Housing Associates financial condition and creditworthiness (SOP 560-0340)
- (e) Recognizing and Reporting Possible Fraud (SOP-560-0400)
- (f) Residential On-Site Review Process (SOP 561-0010)
- (g) Review of Annual Anti-Predatory Lending (“APL”) Screening (SOP-561-0050)
- (h) MAP Guides

8.4 Other Related Documents

- (a) Board Resolutions Concerning Delegations of Authority
- (b) President & CEO Delegations of Authority to Bank Employees
- (c) Chief Risk Officer Delegation of Authority
- (d) Risk Committee Charter (Board)
- (e) Management Committee Charter
- (f) Enterprise Risk Committee Charter (Management)
- (g) Credit and Collateral Risk Committee Charter (Management)