

GUIDELINES FOR SELECTION OF WHOLE FIRST MORTGAGE LOANS (CATEGORY 1 COLLATERAL)

The Federal Home Loan Bank of Indianapolis (FHLBI) accepts as collateral for advances permanent, fully disbursed, whole first mortgage loans, which meet all of the following criteria:

1) Purpose

The purpose of the loan must be for the purchase or refinance of a one-to-four family dwelling unit. Purpose shall be determined from data disclosed on the loan application and/or other supporting documentation in the loan file.

2) Type of property

The secured property must be real estate upon which is located a one-to-four family dwelling unit designed primarily for residential use. Manufactured homes are eligible for pledge only if they are permanently secured to the site, and taxed as improvements to the real estate. Mobile homes, for which the FHLBI would be required to obtain a title to perfect its security interest, are ineligible for pledge.

3) Terms

Fully-amortizing conventional fixed or adjustable rate mortgages, with original terms of at least five years or and remaining maturities not exceeding thirty years, are acceptable for pledge. Balloon payment mortgages with any initial term and with a remaining maturity of less than thirty years are also eligible for pledge.

4) Loan-to-Value Ratio

Loan-to-value ratios should not to exceed 90% unless the loan file contains a valid mortgage insurance certificate. Loans with higher LTVs (up to but not exceeding 100%) will not be disqualified, but will score lower. VA, FHA, and USDA Rural Development guaranteed loans, made in conformity with agency standards, are acceptable if the file contains the guarantee certificate.

5) Title

Borrowing member must have clear and undisputed first-lien mortgage on the securing real estate. Loans originated by a subsidiary of the member, or by any entity other than the member, must be clearly assigned and endorsed to the member institution, unless an affiliate collateral pledge and security agreement has been executed. Each file must contain the following:

- a) A recorded mortgage to the member

- b) A correctly endorsed note showing the member as current mortgagee
- c) An assignment to the member, in recordable form, if the loan was originated by another mortgagee
- d) A title insurance policy showing a first lien position. Loans containing other evidence of first-lien priority, such as a title search or abstract, may not be disqualified, but will score lower.

6) Appraisal

Files should contain an appraisal report demonstrating a discernable and logical method (including comparable sale data) for determining the as-is value of the securing property. If the estimated value is subject to property improvements, the loan file must contain a satisfactory evidence of completion. Appraisals not meeting the above standards (such as BPOs or assessed value calculations) will not disqualify a loan for pledge, but the loan will score lower.

7) Delinquency

Loans over 60 days contractually delinquent are ineligible for pledge. Loans must be withdrawn if they become more than 90 days delinquent or if foreclosure action is initiated.

8) Maker

Loans for which any director, officer, employee, attorney, or agent of the member is personally liable are ineligible for pledge.

9) Hazard Insurance

Improvements located on real estate serving as collateral for the loan must be insured against loss by fire, storm, or flood in an amount not less than 80% of the insurable value of the property or the principal balance of the loan. Loans lacking proof of insurance will not be disqualified but be penalized in the model. Loans covered under a lender "Blanket Mortgage Protection Policy" will also score lower.

10) Liens

The secured property must be free and clear of all liens and encumbrances, including tax liens or levies, as evidenced by a final title insurance policy. No more than the past two year's property taxes shall remain unpaid.

11) Predatory Loans

No loan will be acceptable as eligible collateral if it violates any of the provisions

of FHLBI's Anti-Predatory Lending Policy.

Loans accepted as collateral are subject to periodic review, at the discretion of the FHLBI, to assess credit quality of the portfolio. A random sample drawn from the institution's pledged portfolio will be scored in accordance with the FHLBI's proprietary grading model. Results of the scoring, as well as an assessment of the quality of file documentation, may positively or negatively impact a member's collateral status. Factors reviewed will include:

- 1) Borrower FICO/Beacon/Empirica score: Scores ≥ 720 receive maximum points. Scores < 620 score "0" for this section. Delinquencies over 4x30 on pledged loan will score "0" in this section, regardless of credit score.
- 2) Total debt-to-income ratio: Percentages $\leq 40\%$ receive maximum points. Percentages $> 55\%$ will be scored as "0" for this section.
- 3) Loan-to-value ratio: LTVs $\leq 80\%$ receive maximum points. LTVs $> 90\%$ with no mortgage insurance score "0" for this section. LTVs $\geq 100\%$ are ineligible.
- 4) Purpose: Purchase-money loans receive maximum points. Commercial purpose loans secured by 1-4 dwellings score "0" for this section.
- 5) Property Type: Site built homes score maximum points. Various manufactured homes receive less points. Bare land and non-residential properties are ineligible.
- 6) Occupancy: Owner-occupied dwellings receive maximum points. Various investment properties are scored lower. Non-residential properties are ineligible for pledge.