POLICY TITLE	Responsible Lending Policy
EFFECTIVE DATE	08/18/2011

PURPOSE OF THE POLICY

In fulfilling its housing mission the Federal Home Loan Bank of New York ("FHLBNY" or "the Bank") 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, this policy includes FHLBNY established anti-predatory lending practices with respect to residential mortgage loans and securities backed by residential mortgage loans. ("Residential Mortgage Collateral") or residential mortgage loans purchased or funded under the Mortgage Partnership Finance® Program ("MPF® Program") (hereafter referred to as "Residential Mortgage Loans") and the ban on such by the FHLBNY as eligible collateral, or as an investment.

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, fair, and responsible lending that meets the diverse credit needs of the marketplace that members serve.

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 prevent or regulate abusive and deceptive lending practices and loan terms, and 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 are required to certify their continued compliance with interagency guidance and applicable laws, regulations and regulatory guidance. The FHLBNY will not accept as eligible collateral or purchase as investments, residential loans that fail to comply with these stated requirements.

Anti-Predatory Lending Laws may prohibit or limit certain practices and characteristics, including, but not limited to the following:

- Requiring the borrower to obtain prepaid, single-premium credit life, credit disability, credit unemployment, or other similar credit insurance;
- Requiring mandatory arbitration provisions with respect to dispute resolution in the loan documents; or
- Charging prepayment penalties for the payoff of the loan after the period allowed by applicable law.
- Mortgages subject to the Home Ownership and Equity Protection Act ("HOEPA")
- Steering a borrower toward a mortgage with a higher interest rate and/or fees even when the borrower could qualify under a less costly financing alternative;
- Approving a mortgage based solely on the value of the property; or
- Lending without regard for a borrower's ability to repay the mortgage.

The FHLBNY has established a firm policy regarding the following practices:

i. Residential mortgage loans that require the borrower to obtain prepaid, single-premium credit life, credit disability, credit unemployment, or other similar credit insurance, will not be eligible as Residential Mortgage Collateral and will not constitute qualified Residential Mortgage Loans for purchase under the MPF® Program.

ii. Residential mortgage loans that charge prepayment penalties for early payoff beyond the first five years of the loan will not be eligible as Residential Mortgage Collateral. and will not constitute qualified Residential Mortgage Loans for purchase or funding under the MPF® Program. However, certain States have more restrictive provisions relating to the application of prepayment penalties and, as such, any loan pledged as collateral presented for purchase or funding under the MPF® program must at minimum comply with applicable laws of the state within which the loan was originated. The MPF® program does not permit prepayment penalties on any loans purchased.

iii. Residential mortgage loans containing mandatory arbitration clauses with respect to dispute resolution, to the extent that such requirements are prohibited or limited by applicable Anti-Predatory Lending Laws will not be eligible as Residential Mortgage Collateral and will not constitute qualified Residential Mortgage Loans for purchase under the MPF® Program.

iv. Residential mortgage loans that exceed the annual percentage rate, or points and fees thresholds of the Home Ownership and Equity Protection Act of 1994 and its implementing regulations (Federal Reserve Board Regulation Z), and "high cost" or high rate" loans, or loans in similar categories, as such terms may be defined in Federal laws or the statutes or ordinances of various states or local jurisdictions, whether individually, as part of a loan pool or as underlying collateral in a mortgage-backed security, at the time the loan was made, will not be eligible as Residential Mortgage Collateral or constitute qualified Residential Mortgage Loans for purchase under the MPF® Program.

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

<u>Nontraditional Mortgage Loans:</u> *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.

<u>Subprime Mortgage Loans:</u> *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 may be 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;
- 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 backed 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.

The pledge of a private-label MBS ("PLMBS"), issued or acquired 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.

With respect to Acquired Mortgage Assets: For mortgage loans purchased as investments through the Mortgage Partnership Finance® program ("MPF®") the FHLBNY does not purchase nontraditional mortgages, as defined in this policy. All loans are fully amortizing fixed-rate mortgages. However, MPF® mortgage loans may, at the time of origination or purchase, exhibit one or more subprime characteristics. 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.

With respect to MBS investments: The Bank's Investments Policy limits purchases of MBS to US Agency issues only.

Certifications, Representations and Warranties:

Advances Collateral – In addition to the terms and conditions of the FHLBNY Advances, Collateral Pledge and Security Agreement ("Advances Agreement"), all borrowing members must: (1) certify its understanding and compliance with FHLBNY's Responsible Lending Policy and all applicable Lending Laws; (2) certify that it will maintain qualifying collateral and will (a) substitute eligible collateral for any Residential Mortgage Collateral that does not comply in all material respects with applicable Anti-Predatory Lending Laws or this Policy; and (b) indemnify, defend and hold the FHLBNY harmless from and against all losses, damages, claims, actions, causes of action, liabilities, obligations, judgments, penalties, fines, forfeitures, costs and expenses, including, without limitation, legal fees and expenses, that result from the pledge of any Residential Mortgage Collateral that does not comply in all material respects with applicable Anti-Predatory Lending Laws or this Policy; and 3) certify that residential mortgages that were originated or acquired after July 10, 2007 that are pledged as collateral, comply with all aspects of the Interagency Guidance, applicable laws and regulations.

Acquired Member Assets – In addition to the representations and warranties provided in the Participating Financial Institution ("PFI") Agreement and in the MPF® Origination Guide, as incorporated by reference in the PFI Agreement, the PFI is required to represent and warrant that it will not sell into the MPF® Program any mortgage it originates or purchases that violates any provisions of this Policy. Each PFI must also certify as part of the MPF® Program's Annual Certification that it is aware of this Policy and will comply with this Policy in the sale of mortgages to the Bank.

COMPLIANCE

Advances Collateral: If the FHLBNY knows or discovers that certain Residential Mortgage Collateral violates this policy, the FHLBNY may, in addition to all available rights and remedies at law or in equity (1) value such Residential Mortgage Collateral at zero for collateral purposes, (2) require the pledgor to substitute eligible collateral, and (3) require the pledgor to undertake a review of its policies, practices, and procedures for compliance with FHLBank collateral policies.

Acquired Member Assets: In the event that an ineligible mortgage is sold by a Member to the FHLBNY, the Member will be required to repurchase the mortgage 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 MPF® Origination Guide. In addition, a Member may be required to make the Bank whole for any losses or costs incurred during the time the Bank held the mortgage.