Anti-Predatory Lending Policy for Collateral and the MPF® Program

FHLBank Pittsburgh

Anti-Predatory Lending Policy for Collateral

The Federal Home Loan Bank of Pittsburgh (**"FHLBank Pittsburgh"**) supports the expansion of fair and equitable home ownership opportunities. To discourage predatory lending practices, which are inconsistent with such opportunities, and to protect itself from potential liabilities, FHLBank Pittsburgh has established the following anti-predatory lending policy (**"APL Policy"**) with respect to residential mortgage loans (**"Residential Mortgage Loans"**) and securities backed by Residential Mortgage Loans (**"MBS"**) pledged to it as collateral by its members or any affiliated entities for or on behalf of such members (collectively, **"affiliated pledgors"**).

FHLBank Pittsburgh requires that Residential Mortgage Loans and MBS pledged to it as collateral comply with applicable federal, state and local anti-predatory lending laws and other similar credit-related consumer protection laws, regulations and orders designed to prevent or regulate abusive and deceptive lending practices and loan terms (collectively, **"Anti-Predatory Lending Laws"**). For example, 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 beyond the early years of such loan.

Any Residential Mortgage Loan or MBS that does not comply with all applicable Anti-Predatory Lending Laws will be ineligible as collateral to support advances or other activity with FHLBank Pittsburgh. Additionally, FHLBank Pittsburgh will not give collateral value for any Residential Mortgage Loan or MBS if it meets one or more of the following criteria:

- The annual percentage rate, or points and fees charged for the loan exceed the thresholds of the Home Ownership and Equity Protection Act of 1994 (**"HOEPA"**) and its implementing regulations (Federal Reserve Board Regulation Z);
- The loan has been identified by a member's primary federal regulator as having predatory terms or conditions or resulting from predatory practices;
- The loan includes prepaid, single-premium credit insurance;
- The loan is subject to state or local laws where one or more of the major credit-rating agencies (Standard and Poor's, Moody's Investors Service, or Fitch Ratings) will not rate a security (or securities) in which the underlying collateral pool contains such a loan;
- The loan is defined under one or more federal, state, or local laws as a High Cost Loan, Covered Loan, or Home Loan are loans categorized under such laws as having certain potentially predatory characteristics;
- The loan includes penalties in connection with the prepayment of the loan beyond the time permitted by applicable law, not to exceed five (5) years; or
- The loan requires mandatory arbitration to settle disputes.

FHLBank Pittsburgh will not knowingly accept as eligible collateral Residential Mortgage Loans or MBS that violate applicable Anti-Predatory Lending Laws or this APL Policy. The FHLBank Pittsburgh has adopted the following procedures to monitor compliance by members and their affiliated pledgors with this APL Policy:

1. Ensure that all members and their affiliated pledgors execute a representations, warranties and indemnification agreement with the FHLBank Pittsburgh, whereby each member and each of its affiliated pledgors certifies (1) its understanding and compliance with FHLBank Pittsburgh's APL Policy and all applicable Anti-Predatory Lending Laws; and (2) that it will maintain qualifying collateral and (a) substitute eligible collateral for any Residential Mortgage Loan or MBS that does not comply in all material respects with applicable Anti-Predatory Lending Laws or this APL Policy; and (b) indemnify, defend and hold FHLBank Pittsburgh 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 APL Policy;
2. Periodically review regulator exam reports for members and their affiliated pledgors for findings pertaining to fair lending and abusive lending practices;
3. Monitor regulator alerts for members and their affiliated pledgors for newly issued supervisory agreements, memoranda of understanding, or cease and desist orders pertaining to unfair lending or abusive lending practices;
4. Review a sampling of Residential Mortgage Loans pledged as collateral to the FHLBank Pittsburgh by members and their affiliated pledgors, as part of the FHLBank Pittsburgh's standard collateral reviews, to determine if such collateral is in compliance with Anti-Predatory Lending Laws and this APL Policy.
5. If FHLBank Pittsburgh knows or discovers that any Residential Mortgage Loan or MBS violates applicable Anti-Predatory Lending Laws or this APL Policy, FHLBank Pittsburgh may, in addition to all available rights and remedies at law or in equity (1) require the member or its affiliated pledgor to substitute eligible collateral, (2) value such Residential Mortgage Loan or MBS at zero for collateral purposes, and (3) require the member or its affiliated pledgor to undertake a review of its policies, practices, and procedures for complying with FHLBank collateral policies.

In addition, FHLBank Pittsburgh reserves the right to require evidence reasonably satisfactory to FHLBank Pittsburgh, or take other steps as it deems reasonably necessary, to confirm or monitor that Residential Mortgage Loans and MBS pledged to the FHLBank Pittsburgh as collateral do not violate applicable Anti-Predatory Lending Laws or this APL Policy. With respect to Residential Mortgage Loans or MBS purchased by members or their affiliated pledgors, the members or their affiliated pledgors are responsible for conducting due diligence that they deem sufficient to support their representations, warranties and indemnification with FHLBank Pittsburgh.

This APL Policy addresses collateral pledged to FHLBank Pittsburgh. Residential Mortgage Loans purchased or acquired by FHLBank Pittsburgh from its members under the MPF® Program will be governed by the terms set forth in the FHLBank Pittsburgh's Anti-Predatory Lending Policy for the MPF® Program.

Anti-Predatory Lending Policy for the MPF Program

The Federal Home Loan Bank of Pittsburgh ("FHLBank of Pittsburgh") supports the expansion of fair and equitable home ownership opportunities. To discourage predatory lending practices, which are inconsistent with such opportunities, and to protect FHLBank of Pittsburgh from potential liabilities, FHLBank of Pittsburgh has adopted the anti-predatory lending policies set forth in Chapter 2.6 of the MPF Origination Guide with respect to residential mortgage loans purchased or acquired by the FHLBank of Pittsburgh from its members.

This policy addresses residential mortgage loans purchased or acquired by FHLBank of Pittsburgh from its members under the MPF Program; collateral pledged to FHLBank of Pittsburgh will be governed by the terms set forth in the FHLBank of Pittsburgh's Anti-Predatory Lending Policy for Collateral.

MPF -- Mortgage Partnership Finance/Origination Guide/Chapter 2: General MPF Policies (02/01/07)/2.6: Predatory Lending (02/01/07)/2.6.1: Overview (02/01/07)/2.6.1: Overview (02/01/07)

2.6.1: Overview (02/01/07)

The Mortgage Partnership Finance Program is an "A" quality risk sharing program between the MPF Banks and their PFIs. By design, a PFI must credit enhance each Mortgage to the equivalent of a "AA" rating to deliver the Mortgage into the MPF Program. This Credit Enhancement generally works to deter subprime mortgages from entering the MPF Program. Because PFIs are subject to extensive federal and state oversight and supervision, most predatory lending generally occurs in the subprime mortgage market. In the prime mortgage market, competition, homogeneity in mortgage terms, and better financial understanding by Borrowers typically deter predatory practices.

Predatory lending generally occurs when Borrowers use the equity in their homes for debt consolidation and other consumer credit purposes. Most Borrowers in this market have limited access to the mainstream-lending sector.

Some of the practices that fall under the description of predatory lending include:

- Very high interest rates;
- Very high fees;
- "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;
- Lending without regard for a borrower's ability to repay the mortgage;
- Loan flipping, which consists of refinancing a mortgage without any real economic benefits to the borrower;
- Equity stripping, which is charging excessive fees and points;
- Failing to disclose prepayment penalties to the borrower or using them as a method to prevent a victim of "steering" from being able to refinance to a lower-rate mortgage; and
- Charging a higher rate of interest after a mortgage goes into default.

The MPF Banks believe that PFIs will join with us in identifying and avoiding such abusive lending practices. All MPF Program PFIs are unlikely participants in predatory lending practices. To assist PFIs in complying with their own regulatory guidelines, the MPF Banks have established these guidelines and will continue discussions with PFIs about how they can include more borrowers in the MPF Program. The information gained through these discussions will be used in making appropriate adjustments to these guidelines.

Anti-Predatory Lending Policy for the MPF Program

In addition to the representations and warranties provided in the PFI Agreement and elsewhere in this Origination Guide, PFI's must be aware of, and in full compliance with, all Applicable Laws, particularly anti-predatory lending laws, rules and regulations as they apply to any of its origination or servicing practices. Compliance with these anti-predatory lending laws must be accomplished without regard to the application of federal preemption rules, statements or other related announcements issued from time to time by banking regulators or other regulatory authorities

Since Applicable Laws can change, it is important that PFIs monitor federal laws and the laws of each state or locality in which it does business and take the necessary steps to comply with any changes in these laws. The MPF Bank or MPF Provider may request that a PFI provide evidence of its compliance with any applicable anti-predatory lending law.

MPF -- Mortgage Partnership Finance/Origination Guide/Chapter 2: General MPF Policies (02/01/07)/2.6: Predatory Lending (02/01/07)/2.6.1: Overview (02/01/07)/2.6.1.1: Ineligibility of Unratable Loans (02/01/07)

2.6.1.1: Ineligibility of Unratable Loans (02/01/07)

When a rating agency determines that it cannot rate a structured finance transaction that includes particular mortgages due to the potential liability under Applicable Law, then such mortgages are not eligible for funding or purchase by the MPF Banks. As an example, New Jersey High Cost Loans (as defined by New Jersey law) and Georgia "interim loans" (loans covered by the Georgia Fair Lending Act and originated between October 1, 2002 and March 6, 2003 inclusive) are not eligible for delivery under the MPF Program.

MPF -- Mortgage Partnership Finance/Origination Guide/Chapter 2: General MPF Policies (02/01/07)/2.6: Predatory Lending (02/01/07)/2.6.2: Product Steering (02/01/07)

2.6.2: Product Steering (02/01/07)

The PFI should offer a borrower the lowest cost mortgage alternative for which the borrower qualifies. For example, a consumer that seeks financing through a PFI's higher-priced subprime unit should be offered the PFI's standard mortgage product line if the borrower qualifies for one of the standard products.

MPF -- Mortgage Partnership Finance/Origination Guide/Chapter 2: General MPF Policies (02/01/07)/2.6: Predatory Lending (02/01/07)/2.6.3: Borrower's Ability to Make Mortgage Payments (02/01/07)

2.6.3: Borrower's Ability to Make Mortgage Payments (02/01/07)

The MPF Program relies on the PFI's determination that Borrowers have a reasonable ability and likelihood of repaying their Mortgage debt. Regardless of the underwriting method the PFI uses, the PFI's underwriting of the Mortgage confirms that, at the time of origination, the Borrower can afford to make the Mortgage payments. This determination of the Borrower's ability to repay is made by comparing the Borrower's income, assets and liabilities to the proposed Mortgage payment. See Underwriting Guide Chapter 4 for Borrower Eligibility.

The MPF Banks' willingness to fund or to purchase Mortgages made to Borrowers with higher credit risk, is still predicated on the use of the MPF Program underwriting guidelines that require the Borrower have a reasonable ability to make the Mortgage payments and likelihood do so in a manner that will enable him or her to successfully maintain homeownership.

MPF -- Mortgage Partnership Finance/Origination Guide/Chapter 2: General MPF Policies (02/01/07)/2.6: Predatory Lending (02/01/07)/2.6.4: Allowable Points, Fees and Rates (02/01/07)

2.6.4: Allowable Points, Fees and Rates (02/01/07)

PFIs generally have guidelines and policies that address the fees that originators and brokers can charge a Borrower when a Mortgage is originated. A Mortgage is not eligible for the MPF Program if the total points and fees charged to the Borrower are greater than: (i) five percent (5%) of the Mortgage amount, or (ii) the amount specified under Applicable Law which causes a loan to be classified as high cost, high rate, high risk or similar category of loan. Under this guideline, the definition of "points and fees" provided by applicable federal, state or local law will be applied without regard to the application of federal preemption rules, statements or other related announcements issued from time to time by banking regulators or other regulatory authorities. Unless state or local law or regulation expressly defines points and fees, points and fees will be defined as follows: Origination fees, underwriting fees, broker fees, finder's fees, and charges that the lender imposes as a condition of making the mortgage — whether they are paid to the lender or a third party. Points and fees that do not have to be counted against this limitation include bona fide discount points, (paid to reduce interest rate), buydown points paid by the borrower, as well as fees paid for actual services rendered in connection with the origination of the mortgage, such as: attorney's fees, notary's fees, and fees paid for property appraisals, credit reports, surveys, title examinations and extracts, flood and tax certifications, and home inspections; the cost of mortgage insurance; the costs of title, hazard, and flood insurance policies; state and local transfer taxes or fees; escrow deposits for the future payment of taxes and insurance premiums; and other miscellaneous fees and charges that, in total, do not exceed 0.25 percent of the mortgage amount.

In addition, a mortgage is not eligible for funding or purchase under the MPF Program if: (i) it is subject to the requirements in the Homeownership and Equity Protection Act of 1994 ("HOEPA") that apply to high-cost mortgages, as defined in HOEPA; or (ii) it is subject to the requirements of any federal, state or local laws that apply to loans identified as high cost, high risk or high rate loans or loans in other similar categories as defined by the applicable predatory or abusive lending law without regard to the application of federal preemption rules, statements or other related announcements issued from time to time by banking regulators or other regulatory authorities, or (iii) it is not ratable by a rating agency as described in Origination Guide Chapter 2.6.1.1.

In the event that an ineligible Mortgage is sold by a PFI to an MPF Bank, the PFI will be required to repurchase the Mortgage by the cutoff date of the accounting cycle in which the notice is received from the MPF Bank or MPF Provider (see Servicing Guide Chapter

105.7 for information on the accounting cycle cutoff date). The MPF Bank and MPF Provider will accomplish the repurchase in accordance with Origination Guide Chapter 2.12 and Servicing Guide Chapter 105.5.1. In addition, the PFI may be required to make the MPF Bank whole for any losses or costs incurred during the time the MPF Bank held the Mortgage.

By delivering Mortgages under the MPF Program, in addition to the representations and warranties provided in the PFI Agreement and elsewhere in this Origination Guide, the PFI represents and warrants as follows on the date each Mortgage is delivered to the MPF Bank:

- The Mortgage is not a High Cost Loan as defined in the then-current version of Standard & Poor's LEVELS Glossary, Appendix E ("S&P's Exhibit E") or in Origination Guide Exhibit A;
- The Mortgage is not a Covered Loan or Home Loan as defined in S&P's Exhibit E unless the Mortgage is identified in such category to the MPF Bank (using the appropriate LEVELS data field) at or before the time the Mortgage is delivered to the MPF Bank;
- The Mortgage is not considered not ratable by a rating agency as described in Origination Guide Chapter 2.6.1.1 and Origination Guide Exhibit A;
- The Mortgage is not a high cost loan, high risk or high rate loan or a loan in similar categories as defined by applicable predatory or abusive lending laws without regard to the application of federal preemption rules, statements or other related announcements issued from time to time by banking regulators or other regulatory authorities;
- The PFI's compliance procedures are effective (and upon request by the MPF Provider or MPF Bank the PFI will demonstrate such effectiveness) to identify if the Mortgage falls into any of the ineligible categories described in the preceding four bullets and to determine that the Mortgage does not violate Applicable Laws including without limitation predatory lending laws; and
- The Mortgage was originated in compliance with all Applicable Laws, including but not limited to all applicable predatory and abusive lending laws without regard to the application of federal preemption rules, statements or other related announcements issued from time to time by banking regulators or other regulatory authorities.

MPF -- Mortgage Partnership Finance/Origination Guide/Chapter 2: General MPF Policies (02/01/07)/2.6: Predatory Lending (02/01/07)/2.6.5: Single-Premium Credit Life Insurance Policies (02/01/07)

2.6.5: Single-Premium Credit Life Insurance Policies (02/01/07)

Credit life insurance policies are life insurance policies that a Borrower may purchase to provide benefits that can be applied toward the repayment of a Mortgage Loan should the Borrower die before the Mortgage is paid off. Although some Borrowers choose to obtain credit life insurance policies, no Borrower should be required to purchase such policies as a condition of obtaining a Mortgage.

A mortgage is not eligible for funding or purchase under the MPF Program if the borrower obtained a prepaid single-premium credit life insurance policy in connection with the origination of the mortgage, regardless of whether the premium is financed in the mortgage amount or paid from the borrower's funds. This prohibition does not apply to credit life insurance policies that require separately identified premium payments on a monthly or annual basis or to prepaid hazard, flood or mortgage insurance policies.

MPF -- Mortgage Partnership Finance/Origination Guide/Chapter 2: General MPF Policies (02/01/07)/2.6: Predatory Lending (02/01/07)/2.6.6: Prepayment Penalties and Mandatory Arbitration Clauses (02/01/07)

2.6.6: Prepayment Penalties and Mandatory Arbitration Clauses (02/01/07)

The following mortgages are not eligible for delivery under the MPF Program:

- Mortgages that include prepayment penalties in connection with the early payoff of the mortgage (See Origination Guide Chapter 12.5); and
- Mortgages that include mandatory arbitration clauses.

MPF -- Mortgage Partnership Finance/Origination Guide/Chapter 2: General MPF Policies (02/01/07)/2.6: Predatory Lending (02/01/07)/2.6.7: Full-File Credit Reporting to Credit Repositories (02/01/07)

2.6.7: Full-File Credit Reporting to Credit Repositories (02/01/07)

A key factor that affects a Borrower's credit record is the amount of information that the credit repositories have on hand about the Borrower's payment history. To that end, the MPF Banks believe that it is important for a Borrower's entire Mortgage payment history to be reported to the credit repositories since that gives a Borrower who has a good payment record more opportunities to obtain new financing (and better mortgage terms) when the need arises.

To assure that the credit repositories have up-to-date information about both Servicing and origination activity, the Servicer is required to provide a full file credit status report for all MPF Mortgages to each of the designated credit repositories monthly (See Servicing Guide Chapter 107.1.2). Full-file reporting includes Mortgages recently originated, current and delinquent Mortgages, and Mortgages liquidated through workout options, Foreclosure and charge offs.

MPF -- Mortgage Partnership Finance/Origination Guide/Chapter 2: General MPF Policies (02/01/07)/2.6: Predatory Lending (02/01/07)/2.6.8: Late Charges and Default Interest (02/01/07)

2.6.8: Late Charges and Default Interest (02/01/07)

MPF Servicers are not permitted to charge Borrowers a higher rate of interest after default. In addition, MPF Servicers are permitted to charge late fees in the amounts and at the times which are authorized by Applicable Law and by the relevant Mortgage documents, subject to all limitations and restrictions of Applicable Law and relevant Mortgage documents.

MPF -- Mortgage Partnership Finance/Origination Guide/Chapter 2: General MPF Policies (02/01/07)/2.6: Predatory Lending (02/01/07)/2.6.9: Summary (02/01/07)

2.6.9: Summary (02/01/07)

These Predatory Lending guidelines will be applied in cooperation with PFIs to make sure that the MPF Banks avoid funding or purchasing mortgages that involve abusive lending practices.

The MPF Banks recognize that many PFIs already have in place policies and procedures that are designed to avoid the practices noted in these guidelines, although they may not capture in their management information systems complete information for every mortgage. In view of this, the MPF Provider will work with PFIs to develop appropriate measures to ensure that predatory lending practices are avoided.

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