BANK OF ENGLAND

September 2020

Loan Collateral: guidance for participants in the Sterling Monetary Framework

Contents

1 Executive summary

1.1 Introduction

1. The Bank of England (the Bank) stands ready to lend to its counterparties – participants in the Sterling Monetary Framework (SMF) – against wide range of eligible collateral. Eligible collateral consists of Level A (comprising certain high-quality sovereign securities that are liquid in all but the most extreme circumstances), Level B (comprising high-quality liquid collateral, including private sector securities that normally trade in liquid markets) and Level C (comprising less liquid securities and portfolios of loans).

2. This document provides guidance on the loan collateral element of Level C, setting out the process for 'prepositioning' loan pools at the Bank in advance of the Bank lending against them. Portfolios of loans are eligible as collateral in the Bank facilities. Further information on the Bank's facilities is set out on the Bank's website[1] including the Sterling Monetary Framework facilities, which are summarised in the Bank of England Market Operations Guide[2]. The loan collateral eligibility requirements are the same regardless of the scheme for which the collateral is used.

3. This guide is for information purposes only and will be updated regularly. Participants should contact the Bank for confirmation before taking any actions. This should be read in unison with the Bank's SMF Terms and Conditions and Operational Procedures[3].

4. Further information on prepositioning loan collateral, including pro forma documents, is available at https://www.bankofengland.co.uk/markets/eligible-collateral. A participant seeking information or documentation that is not included here or on the website should contact the Bank directly, via the participant's assigned contact in the Collateral Team.

1.2 Summary of this guide

5. This guide sets out the Bank's requirements, which are necessarily detailed. The process is designed to be very robust to protect the Bank's balance sheet, helping ensure the credibility of the Bank's policy actions in even the most stressed environment.

6. The diagram below summarises the key steps in the Bank's prepositioning process. These steps are detailed more fully in section 2, but in summary this involves: a introductory 'kick off' call with the Bank, the participant completing a Due Diligence Questionnaire, an on-site visit by the Bank, provision of a loan-level data tape, with a data audit and legal review, with the process ending with a final decision from the Bank, including of the 'haircut' on the loan pool.

7. Section 3 aims to provide guidance on the time it takes to preposition raw loan collateral and the costs involved. Section 4 details the Bank's raw loan eligibility criteria. Section 5 outlines the Bank's expectations with regards to

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1 https://www.bankofengland.co.uk/markets

2 https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide

3 https://www.bankofengland.co.uk/markets/the-sterling-monetary-framework

how pools are structured. Section 6 details the operational process in relation to prepositioning loan pools, encumbering loan pools and unencumbering loan pools. Section 7 explains how the Bank monitors pools post pre-positioning and what is expected of participants on an ongoing basis. Section 8 aims to guide participants when topping-up, merging and splitting pools. Section 9 explains how the Bank's external portal works. Section 10 highlights the importance of the role of authorised signatories whilst section 11 aims to address some frequently asked questions.

Introductions

- Following initial contact with the Bank, the participant will be provided with a guide to review (this document). For SME, corporate, PFI and social housing pools, participants will also be sent a checklist to highlight any high level legal barriers to considering the loans.
- A "kick-off" call is held to discuss any questions, particularly regarding the process, and to provide the Bank with an overview of the portfolio planned for prepositioning and results of the legal checklist.
- With input from the Participant, the Bank will take a transaction screening assessment to its internal committee.

Data tape

- The participant should provide the Bank with a data tape based on the indicative portfolio.

Due diligence questionnaire & site visit

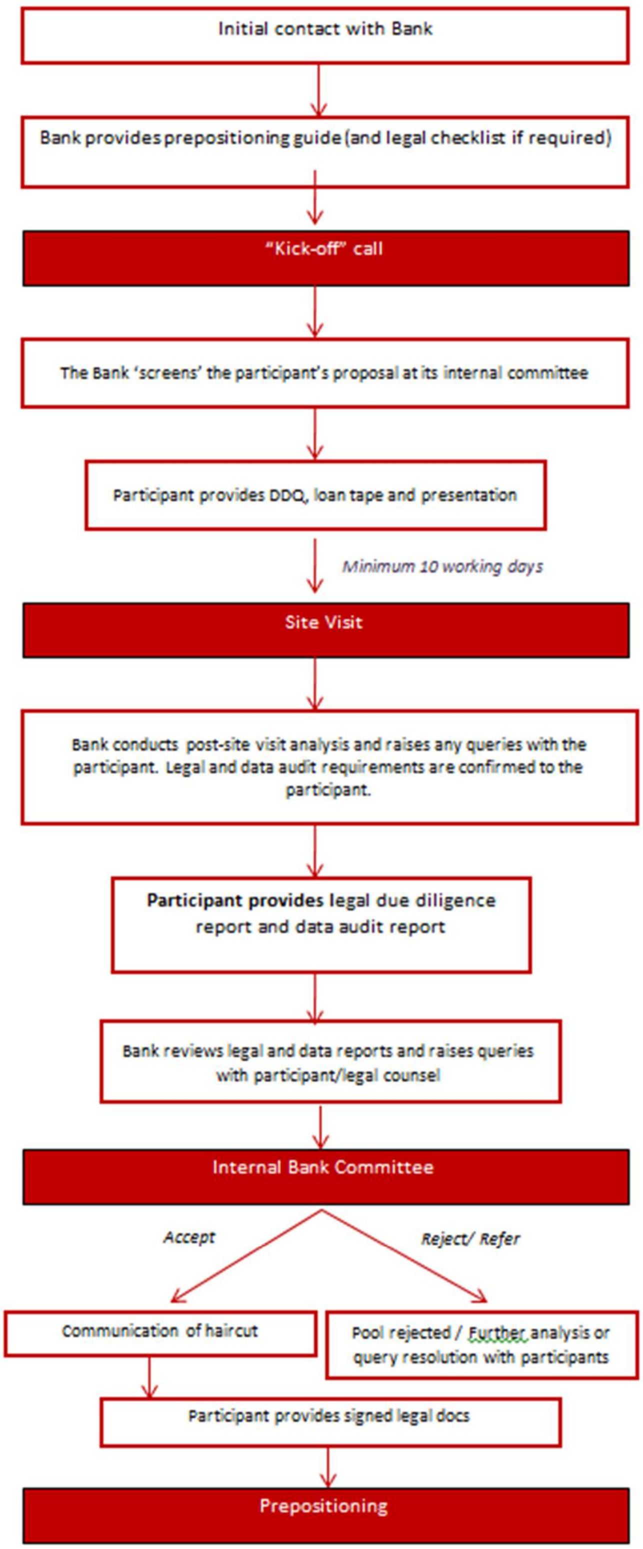
- The participant should provide a completed due diligence questionnaire as well as any presentation material to be used on the site visit. **The Bank requires this information at __least 10 working days__ in advance.**
- The participant should also engage with their legal counsel and data auditor to prepare them to conduct due diligence post the site visit.

Detailed analysis

- Following the site visit, the Bank's team will complete its review of the information provided and will confirm the audit and legal requirements.
- The completed legal due diligence and data audit will be required along with a finalised data tape.
- Once all this information has been received the Bank will complete its review and present its assessment to its internal committee.
- This stage is very dependent on the time taken by third parties and the findings of these reviews. On average this can take two to three months.

Prepositioning

- If the committee raises queries, then further information and/or analysis may be required.
- If the committee are comfortable, the haircut will be communicated to the participant and following receipt of the signed documentation, prepositioning can be completed.
- This stage can be completed in a few days.



1.3 Who do I contact

8. The Bank's Markets Directorate is the first point of contact for an SMF participant. Within Markets, the Sterling Markets Division (SMD) deals with applications to join the SMF, the Financial Risk Management Division (FRMD) deals with collateral risk management and Middle Office (MO) deals with collateral operations, including encumbrance. Collateral margin calls and the Collateral Management Portal are dealt with by the Collateral Management & Custody Team, within the Banking, Payments & Financial Resilience Directorate.

Who do I contact	
Financial Risk Management Division – *Assigned Collateral Analyst*	Loan pool due diligence, eligibility and haircut queries
Middle Office – *LoansData@bankofengland.co.uk*	Loan portal queries, Un/encumbrance, On the day prepositioning/top up queries, Weekly balance submissions
Collateral Management and Custody – *CMCSCP@bankofengland.co.uk*	Back Office statements and Collateral Management Portal, Margin calls
Sterling Markets Division – *Assigned Relationship Manager or SMDDealers@bankofengland.co.uk*	General enquiries about usage of the Bank's facilities and drawings

9. Collateral management within FRMD, is split into two parts, one covering residential mortgages and the other covering non-residential mortgage assets. Participants with multiple asset types may therefore be given contact points within each team.

Financial Risk Management Division – *Collateral Teams*	
Residential Mortgages	**Non-Residential Mortgages**
Owner occupied	Asset Finance
Buy-to-Let	Auto loans
High Net Worth	Commercial real estate
	Consumer loans
	Corporate loans
	PFI
	SME
	Social Housing

10. Each participant planning to submit loan portfolio collateral will be assigned a lead analyst from the Bank's Collateral Team. From that point forward they will be the main point of contact regarding the prepositioning of portfolios submitted by that participant. Participants should include the lead analyst and any assigned back up analyst on all email communications.

2 Loan eligibility process for a new participant

2.1 Summary

1. This section outlines the prepositioning process for a new loan collateral participant. The same steps apply for a new asset type from an existing collateral participant (e.g. a participant which has residential mortgages positioned but wishes to position consumer loans for the first time).

The prepositioning process is designed to:

- Provide assurance on the quality of the participant's (i) loan origination and servicing policies; (ii) risk management practices; and (iii) the quality of management information on which it will rely.
- Identify risks that may prevent the Bank from realising some or all of the value of the collateral;
- Identify financial risks in the collateral and enable the Bank to manage them (for example, financial risks from special loan structures such as offset mortgages); and
- Value the collateral accurately and set a suitable haircut.

2.2 Introductions

2. To begin the prepositioning process, participants should contact their Sterling Markets Division relationship manager providing an overview of the collateral they are looking to preposition. Participants should be existing members of the Bank's Sterling Monetary Framework (further information on the application process to become a member is available here on the Bank's website https://www.bankofengland.co.uk/markets/the-sterling-monetary-framework).

3. Following initial contact, a 'kick-off' call will be arranged, in which the participant provides further information on the collateral they plan to preposition and the Bank can answer any initial queries, including talking through the process detailed in this guide.

4. Before the Bank proceeds with any further work to pre-position the pool, it will 'screen' the participant's proposal at its internal committee. The committee will determine whether the assets are likely to meet our eligibility criteria and subsequently make a decision as to how to proceed with work to pre-position the assets. The decision will either be (i) to continue work to pre-position; (ii) request further information from the firm before proceeding with work to pre-position; or (iii) reject the proposed pool for pre-positioning. The decision will be communicated to the firm shortly after the committee. It is vital that firms provide accurate information prior to this committee. **Providing misleading or inaccurate information may result in unnecessary work, costs and the assets being rejected later in the process.**

Box 1: Transaction screening

Before the Bank proceeds with any further work to pre-position the pool, it will 'screen' the participant's proposal at its internal committee. In order to take the proposal to committee, the Bank requires the firm to provide adequate and accurate information on the following:

- *Reason for positioning assets;*
- *Assets:* Asset type, homogeneity, pool size, number of loans, granularity, have these assets been securitised by the participant before? Have these loans been securitised in the UK and/or European market before?
- *Origination*: Are the loans originated by the firm or a third party? Does the firm have all the necessary underlying loan documentation? Does the firm have the origination policy at the time of origination? What is the participant's track record with regards to originating and servicing these assets?
- *Data:* Can the participant meet the Banks reporting requirements? Is the participant able to provide the necessary performance data required by the Bank?
- *Legal:* How standard is the documentation backing the loans?

5. All potential loan participants are encouraged to discuss plans with their PRA supervisor and keep them updated during the process. The collateral team within the Financial Risk Management Division work closely with PRA supervisors to share information and provide background information on the firm, including access to regulatory submissions.

Next steps

- Participant decides whether to pursue prepositioning loan collateral. A summary of the proposal is to be sent to the Bank outlining the proposed number of pools and assets which have been included.
- Participant to send across request and Bank to set up the participant within the external portal (LoansData@bankofengland.co.uk)
- Participant to propose a selection of site visit dates to its lead collateral analyst who will then agree attendees from the Bank and confirm a suitable date.

2.3 Data tape

6. To conduct its analysis, the Bank requires a loan level data tape for each proposed portfolio. Tapes have two core purposes:
   - To define which loans are included within the pool and are therefore being used as collateral; and
   - To provide the Bank with visibility of the individual loan characteristics to determine a haircut for the portfolio.

7. Data tapes are required in a prescribed format which differs depending on the asset class. The templates are similar to ECB ABS transparency measures, providing consistency with existing market data requirements. In order to effectively risk manage raw loan pools, the Bank requires slightly different information and therefore there are some additional fields and guidance. The templates are accessible on the Bank's website[4].

[4] https://www.bankofengland.co.uk/markets/eligible-collateral

8. **A data tape must have been submitted and should have passed validation prior to the site visit** (see paragraph 12 below for details regarding validation). This will focus the visit on the loans being proposed and minimise further follow up queries. The data tape glossary, which sets out in further detail what information is to be captured in each field in the data tape, will be discussed on the visit to identify any gaps and queries.

9. Data fields are defined as either 'mandatory' or 'optional'. Mandatory fields are essential to enable the Bank to calculate a haircut or to enable legal ownership. An inability to provide this data results in ineligibility of the pool. Where optional fields cannot be completed, this should be discussed with the Bank. Participants are required to maintain a data tape glossary whereby the tape templates are annotated to indicate fields where the participant is unable to comply or has made assumptions regarding the most appropriate classifications.

10. Where optional fields are not completed, the Bank may make conservative assumptions within its assessment – resulting in higher haircuts. It is therefore in the participant's best interest to provide a fully completed tape. This will also put participants in a good position going forward as the Bank expects to gradually increase the number of mandatory fields over time.

11. Each pool is assigned a unique pool identifier. This identifier is used within the portal and for all communications with the Bank.

12. All data must be provided via the External Portal which includes a validation engine to verify the quality of submissions. Where tapes fail to meet quality standards, participants will be informed via email that the data has been rejected alongside an outline of the cause. For further guidance, participants should contact the Bank's Middle Office via the following email address LoansData@bankofengland.co.uk.

Box 2: Common validation errors

- Participants should delete the blank rows at the bottom and side of the table. This should be done by 'right clicking' and selecting 'Delete' rather than using the keyboard.
- The cut-off date used in the data tape must match the cut-off date selected in the portal.

13. **The accuracy and consistency of data is taken very seriously.** Participants should ensure that all submissions have adequate controls in place to ensure data is of the highest quality. As part of its review, the Bank will be looking to ensure participants have a largely automated tape production, through a process which is sufficiently controlled. If participants frequently fail to meet requirements then the Bank retains the right to apply higher haircuts or ultimately withdraw eligibility.

14. Loans which are prepositioned with the Bank should be clearly identifiable within the participant's core IT system via flags or hold codes. Where this is not possible, the Bank will be keen to establish how the participant plans to ensure positioned loans are segregated from its wider book and how the Bank would be able to identify its collateral should it need to take ownership of the loans in the event of the participant defaulting on its obligations to the Bank.

Box 3: Disaggregated data (residential mortgage assets only)

Data tapes must be completed on a disaggregated basis. Each loan (including further advances) is to be detailed on separate rows. Note that for residential mortgage loans, where a further advance has taken place, it must be placed within the pool. Where loans are secured by multiple properties each property should also be detailed on separate rows.

Further advances should be signified by utilising a hyphen and number to identify each occurrence, as shown below. Borrower and property information is expected to be consistent across each row. Loan to value and debt to income data should be updated across all rows to reflect the new position.

Example 1 – Further Advance Reporting

Loan Identifier *(AR3)*	Loan fields *(e.g. origination date)*	Borrower fields *(e.g. year of birth)*	Property fields *(e.g. region)*
12345	*Relevant to the original loan*	*Borrower and property information will be consistent across all three rows.*	
12345 - 1	*Relevant to further advance 1*		
12345 - 2	*Relevant to further advance 2*		

Where there are multiple properties securing each loan, each property should be given a unique identifier (AR8) and row. Loan and borrower information will be the same across all the rows; only the property information will differ.

Example 2 – Multiple Properties

Loan Identifier *(AR3)*	Property identifier *(AR8)*	Loan fields *(e.g. origination date)*	Borrower fields *(e.g. year of birth)*	Property fields *(e.g. region)*
12345	*ABCD*	*Same across all fields*		*Relevant to property ABCD*
12345	*EFGH*			*Relevant to property EFGH*
12345	*IJKL*			*Relevant to property IJKL*

2.4 Due diligence questionnaire & site visit

Due diligence questionnaire (DDQ)

15. The Bank requires that each participant completes a due diligence questionnaire (DDQ). The DDQ provides an overview of the following aspects relating to the business line planned for prepositioning:
    - Strategy, outlook and competition
    - Underwriting and originations
    - Risk management, monitoring and controls
    - Regulation, compliance and ratings
    - Servicing, arrears and foreclosures
    - IT systems and reporting

Box 4: Due Diligence Questionnaire requirements

- *Key deadline:* The DDQ and supporting documentation must be provided at least 10 working days before the visit.
- *Answers to questions must cover all asset types being discussed as part of the review* (e.g. owner occupied and BTL). If necessary, responses should be split into sections to ensure each asset type is covered.
- *Participants must answer all applicable questions with a written response.* Participants may mention a supporting document but there must always be an explicit answer to each question. This enables the Bank to track changes between reviews. Failure to complete this correctly will result in the DDQ being sent back to the participant.

16. The DDQ requirements are periodically reviewed and updated to reflect changes in the market. The latest version for each asset class is available on the Bank's website5. If a proposed portfolio is similar to one which has already been approved for prepositioning, the questionnaire should highlight the differences in the new portfolio.

17. All documents should be uploaded to the 'Supporting Documents' folder of the Bank's external portal. Contact your lead analyst to confirm documents have been received. No documents are to be sent via email without the Bank's permission.

[5] https://www.bankofengland.co.uk/markets/eligible-collateral

Box 5: Historical performance data

Participants wishing to position residential mortgage loans should provide historical foreclosure and repossession data using the Excel template attached in the residential mortgage DDQ. This should be provided via the 'Supporting Documents' folder of the Bank's external portal. This provides the Bank with data on the participants past performance and should be completed with as much historic data as possible.

Participants wishing to position asset finance, auto or consumer loans will be required to submit vintage curve data. A template is available on the Bank's website[6]. This spreadsheet shows the current balance of loans within each origination month which has fallen into any magnitude of arears post origination. The data must be provided on a cumulative basis (i.e. if a loan falls into arrears four months post origination then this balance should continue to be reported in each subsequent column even if the becomes performing again).

Unless indicated by the Bank, the data must cover the participant's entire book for that asset type (not just the loans included within the proposed pool).

The Bank retains discretion to ask for historical performance data for other asset classes.

Site visit

18. The Bank will visit the participant ahead of prepositioning, which allows the Bank to raise queries related to the completed questionnaire, meet members of the management team and build a qualitative understanding of the participant's business. Alongside the completed DDQ and supporting documents, the Bank will require:

    - Any presentations planned for the site visit (presentations are not compulsory although participants may find slides helpful to highlight key aspects);
    - An agenda for the day, including the names of all attendees, and;
    - A loan level data tape for the proposed portfolio. This can be indicative if the pool has not yet been finalised.

19. If the required documentation is not received within the ten working day deadline before the site visit then the Bank may choose to rearrange the visit.

20. An indicative agenda is included below. The visit follows the structure of the DDQ. Having received the DDQ, the Bank may request alternative timings to focus on particular areas of interest if deemed necessary. Each session should be led by representatives from the relevant business areas that are able to answer detailed questions regarding their area, rather than the central treasury function (e.g. CRO or Head of Risk would be expected to attend the risk management session).

Example site visit agenda sessions

- Business strategy (with a focus on the business line being positioned)
- Origination, underwriting and servicing
- Floor walk (one on one with an underwriter and servicer)
- Servicing, arrears and forbearance
- Risk management
- IT and data tapes
- Audit
- Summary and wash up

21. While the first agenda item should provide an overview of the business and different products available, the assets proposed for prepositioning must be made very clear and the remainder of the day should concentrate on aspects related to the proposed business line. It is also expected that the site visit will include time to 'floor walk'. This allows the Bank to meet with an underwriter and servicer to discuss a real time case and see the theory discussed in practice. This session may be replaced with an underwriting file review or observation of a management-level Credit Risk Committee, where requested by the Bank.

22. The file review allows the Bank to view the underwriting documentation for a small sample of loans from the proposed pool. The Bank will outline and explain any such requirements ahead of the visit.

Next Steps

- No explicit feedback is provided post the visit although the Bank may have follow-up questions which it will address by email or a follow-up call with the participant.
- If the Bank has specific concerns it will seek a 'decision in principle' from its internal risk committee..
- The Bank will confirm the audit and legal work required (including the confidence level/sample sizes). Work can then be commenced on both in parallel.

2.5 Data audit

23. The Bank requires a loan portfolio audit to be completed to verify the existence of the loans, and offer comfort on the quality of the participant's systems and processes. This is at the participant's expense. The audit includes data validation and analysis confirming compliance of the loans with the Bank's eligibility criteria. The audit should be performed by a suitable third party appointed by the participant. The Bank does not dictate who the participant uses and participants are free to engage their external or outsourced internal auditor (but not in-house internal auditor). Using audit firms who are experienced in conducting collateral audits in the form and substance expected by the Bank, often ensures a smoother and quicker process. Therefore, we encourage participants to discuss previous experience with potential firms. Participants should inform the Bank of the chosen firm before undertaking the audit.

24. The tests required are detailed within “Agreed Upon Procedures” (AUPs) for each asset class. These documents are available on the Bank’s website[6].

25. Most AUP tests will relate to the data fields included in the loan level data template but others relate to aspects of the loan agreements which are required to legally enforce on the loans (e.g. names, addresses, title registration, signatures completed). The AUPs specify whether the data should be checked to the source system, original documentation, or both.

[6] https://www.bankofengland.co.uk/markets/eligible-collateral

Box 6: Data audit requirements

- *Participants must contact the Bank before commencing the data audit.*
- The population subject to the audit should encompass all the assets proposed for prepositioning.
- *Participants may be required to divide each loan portfolio into a number of discrete, homogenous sub-portfolios of assets* reflecting key characteristics such as the dates over which the loans were originated, the brands under which they were issued or the systems on which they are recorded. This is required to ensure the sample provides adequate visibility of all subsets within the portfolio.
- *Audits will normally be required at one of two confidence levels - 99/1 or 95/5*. The Bank will determine the required confidence level required for each pool individually based on the number of loans in the proposed portfolio and the findings of the site visit. The confidence level will be confirmed by the Bank after the receipt of the data tape and site visit.
- *Auditors will determine the number of sampled files required to reach the confidence level.* Generally a 99/1 audit will result in a sample size of approximately 460 loans whereas 95/5 is 60 loans. For small or less granular portfolios, the Bank may require all loan files to be reviewed.

Confidence intervals
95/5 – *For each test the auditor confirms with what certainty it is 95% confident that there are no more than 5% errors within the portfolio being reviewed.*
99/1 – *For each test the auditor confirms with what certainty it is 99% confident that there are no more than 1% errors within the portfolio being reviewed.*

- To the extent loan files cannot be located for use in the audit, then these *missing files may be excluded from the statistical significance of the test but a record must be retained and included in the audit report.*
- To ensure that the loans selected by the external auditor are from the same pool and data tape provided to the Bank, it is required that:
  - Participants email auditors asking them to select sample loans from the loan IDs provided to the Bank;
  - The same email should contain the exact same loan IDs provided to the Bank;
  - The Bank must be copied in; and
  - In the same email, the participant is to confirm that the loan IDs match that provided in the data template provided to the Bank.
- *The Bank requires auditors to detail the results of the audit within a written report.* This must outline the requested audit (including confidence level and number of files reviewed), which tests were completed and the number of errors or missing documentation identified for each test.
- Alongside the audit report *the Bank requires all auditors to complete an Excel template which summarises the results of the audit.* This can be found on the website alongside the AUP requirements.

2.6 Legal review

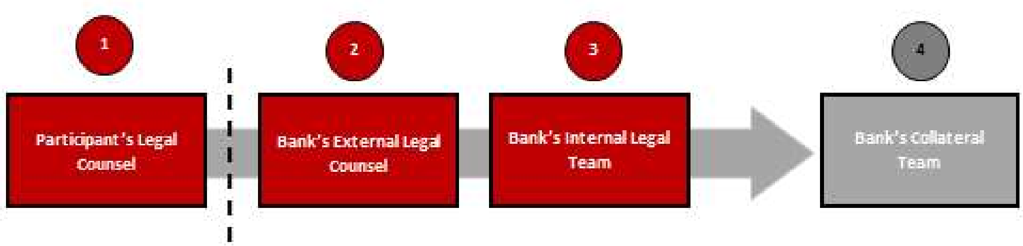
26. The Bank requires a legal review of a loan portfolio. This is at the participant's expense. At a high level, the legal due diligence is requested to confirm:
    - The location, jurisdiction and governing law of the assets;
    - That the loans are valid, binding and enforceable against the underlying borrower;
    - That the documentation for the asset does not prevent the mechanism by which the asset is delivered as collateral being effective, or impose conditions for the delivery mechanism to be effective, such as the need to advise or obtain the approval of the borrower;
    - Compliance, where applicable, with consumer credit requirements;
    - That the loan was originated in the ordinary course of business and has not been terminated redeemed or cancelled; and
    - That the participant has an effective charge over any collateral used to secure the loan.

27. Prior to initiating legal work, participants should highlight cases where bespoke documentation is used and discuss the next steps with the assigned lead collateral analyst. In these scenarios the Bank is unlikely to accept the portfolio in a raw loan form, given the Bank's strong preference for loan collateral written under standardised documents. Instead participants are encouraged to consider securitising the portfolio and positioning the notes as collateral. Where the Bank feels it can proceed with accepting the raw loan pool, the inclusion of bespoke documentation will prolong the prepositioning process and result in higher legal costs.

28. The Bank has prepared additional guidance (in the form of a checklist) that would assist in scoping loans which would meet the Bank's eligibility criteria. If relevant to the pool, the lead collateral analyst will share a copy of the checklist with the participant. Participants are required to self-check eligibility of loans in the proposed pool against the checklist and proactively confirm to the Bank's collateral team that there are no concerns around eligibility.

Legal process

29. There are four main stages to the legal review process:



Stage 1: The participant's legal counsel

30. Participants should appoint an external legal counsel to complete a legal due diligence questionnaire and legal opinion for the loan portfolio. Standard form legal due diligence templates for each asset class are available on the Bank's website[7]. The Bank does not specify which legal counsel should be used by participants. Using firms

[7] https://www.bankofengland.co.uk/markets/eligible-collateral

who are experienced in conducting legal due diligence and issuing legal opinions, in the form and substance expected by the Bank, often ensures a smoother and quicker process. Where participants use inexperienced firms, the legal review process could be prolonged and may ultimately result in higher fees for the participant.

31. The Bank should be notified of the legal firm the participant plans to engage. Northern Irish and Scottish counsel should also be engaged and separate reports completed if the participant proposes including loans from these jurisdictions (which will be split out into a separate pool for Scottish loans).

32. The legal due diligence questionnaire requires the participant's counsel to review and assess the terms under which the loans have been written. For large granular portfolios (e.g. residential mortgages and consumer loans) the standard form documentation (including all possible variants) for all loans included in the portfolio will need to be reviewed.

33. In addition, a random sample of 10, 25, 50 or 75 loans is generally required (The Bank will inform you of the number of loans that must be sampled). **The sample should be selected randomly by the participant's counsel (the sample is not to be selected by the participant).** Similar to the data audit, there may be reasons why the Bank dictates the sample or divides the portfolio into homogeneous groups (for example, to ensure all asset types (owner occupied and BTL) or different terms and condition templates are adequately represented in the sample). The loans selected for the legal sample do not need to be the same as the loans selected for the data audit sample.

34. The documentation for the loans will be reviewed to confirm that they comply with the standard documentation and the Bank's eligibility criteria, and to identify any issues which would undermine the effectiveness of the loans as collateral. If any of the sample contains incomplete documentation, this should be noted (and reasons for the incomplete documentation provided), and further files should be selected until the requested number of files have been reviewed.

35. **For portfolios containing loans with bespoke documentation** (e.g. for larger corporate, PFI, social housing or commercial real estate), the Bank requires an alternative approach. Instead of the standard legal review , a core terms report is required in respect of all the loans in the pool and then in addition to that, a 'deep dive' due diligence questionnaire is required in respect of a chosen sample of loans. Typically, a core terms report would include questions around status of incorporation of the borrower; governing law; restrictions on assignment of the loan (or creation of a trust) or transfer of servicing to a third party, waiver of borrower's right of set off; restriction on disclosure of information to the Bank or third party assignees/transferees, requirement for a confidentiality undertaking, confirmation of the existence of certain events of default in the documentation etc. Templates are available on the Bank's website page.

Stage 2: The Bank's external legal counsel

36. The Bank's external legal counsel will review all the legal due diligence reports and opinions made available to the Bank by the participant and its legal counsel, and consider their implications for the prepositioning of the portfolio. The Bank and its legal counsel may have further questions or require clarifications on certain legal points. The Bank expects prompt and complete engagement by participants and their legal representatives so the review can be concluded swiftly.

37. English and Welsh reports are reviewed by the Banks external legal counsel.

38. The Bank's external legal costs relating to this review will be charged to the participant under the terms of the SMF. The Bank has agreed with its legal advisors on a fixed fee structure for the Bank's legal costs for 'vanilla'

residential loan portfolios governed by English law. Participants have the option not to take up this offer although the fees incurred may be higher or lower. Participants should confirm via email if it believes it fully complies with the criteria.

Box 7: Vanilla criteria

'Vanilla' residential mortgage portfolios are those which the Bank deems to meet the following criteria:

- English and Welsh governing law;
- 100% residential, self-originated mortgages (no bought pools);
- Post Mortgage Conduct of Business rules (MCOB) originated with a limited number of standard terms under which mortgages are written;
- No self-certification / 100% income verification;
- No social housing/shared equity/shared ownership/equity release/lifetime mortgages/mortgages to high net worth individuals;
- No offsets/flexible loans or government schemes e.g. New Buy, HTB;
- No confidentiality or data protection issues which would prevent the perfection of legal title to the Bank.

Stage 3: The Bank's internal legal team

39. The Bank's internal lawyers will review the analysis conducted by its external lawyers and explain the key risks for the Bank's collateral team. Additional clarifications and queries are passed back to the Bank's external counsel to answer. This may require input from the participant or its lawyers.

Stage 4: The Bank's collateral team

40. The collateral team review the legal due diligence. Once content, the legal work will be signed off and any mitigating actions taken. This can include the removal of loans, haircut mitigants or in the extreme, ineligibility of the portfolio. At this stage, the Bank is approving the final draft versions of the reports – executed versions are created on the day of prepositioning.

41. The legal review can often be the most time consuming part of the prepositioning process. Given the number of different individuals involved it is crucial that participants remain in communication both with its legal counsel and the Bank. The collateral team receive frequent updates from its legal counsel and will monitor progress. Where appropriate, the Bank will pre-warn the participant of any additional clarification questions or risks its legal counsel is focusing on. All responses should go via the relevant external legal counsel, in order for legal reports to be updated to reflect the additional information.

Legal transfer

42. Before prepositioning, the participant must complete and submit all relevant legal documentation, including:

- **An executed supplemental annex for the delivery of loan collateral.** The annex forms part of the Bank's SMF Terms and Conditions, and is deemed to form part of any applicable facility or scheme which the Bank makes available to a participant in which loan collateral may be provided;
- **An executed power of attorney,** giving the Bank the right to act as agent or in the name of the participant in relation to the loans (the form of which is attached as a schedule to the annex);

- **A legal opinion** confirming, among other things, the enforceability of the loans, the transferability of the loans, and certain tax matters;
- **A legal due diligence or core terms report** to enable the Bank to confirm the eligibility of the loan portfolio for the purposes of the transaction (note that the participant may be required to deliver more than one report where the loans in a proposed portfolio are governed by the laws of more than one jurisdiction);

DOCUMENT CHECKLIST
Only when prepositioning for the first time or at the request of the Bank:
Loan Annex
Power of Attorney
Side Letter (if required)
Declaration of trust and related documentation (if applicable)
For every legal review:
Legal DDQ/Core Terms Report
Legal Opinion

43. The annex, power of attorney, declaration of trust, and any side letters should be signed and hard copies posted to the Bank's Middle Office. These must be received ahead of the prepositioning date. There are different versions depending on the asset type being positioned. The Bank will confirm which document versions are required bilaterally with participants.

44. The Bank normally expects English law governed loans to be transferred as an equitable assignment, though this will not be possible in all cases. Where participants believe that equitable assignment is not possible (owing, for example, to restrictions on assignment contained in the underlying mortgage conditions), they should discuss with the Bank whether transfer should be effected under a declaration of trust. Each method of transfer has a separate annex to the existing SMF documentation and these are available on the Bank's website[8]. Scottish law governed loans will always transfer under a declaration of trust.

45. Standard forms of all of these documents are provided by the Bank and are available on the Bank's website or by contacting the Bank directly. The Bank will provide further guidance as prepositioning progresses.

[8] https://www.bankofengland.co.uk/markets/eligible-collateral

2.7 Eligibility confirmation

46. Once the above requirements have been met, the portfolio will be considered for eligibility by the Bank's internal collateral risk committee. The committee meets periodically during the month. The participant's lead collateral analyst will confirm the date of the meeting and will communicate any decisions shortly afterwards. Further work may be required after the meeting should members require additional information on any element of the process before determining eligibility. Participants should engage promptly to resolve any queries in order to avoid delays.

47. Once a pool is deemed eligible it can be used as collateral within any of the applicable Bank schemes (subject to the participant itself being eligible to participant in the scheme). Haircuts do not differ depending on the scheme (i.e. an ILTR and TFS participant would have the ability to use an eligible pool in either scheme and the same haircuts would apply).

Haircuts

48. The post haircut value of the loan portfolio will be calculated by the Bank and is dependent on (i) the Bank's qualitative assessment of the participant's strategy and governance framework, its origination and servicing practices, risk management competency and IT capabilities; (ii) the Bank's quantitative assessment of the credit risks inherent in the pool; and (iii) other risks inherent in the loan portfolio. The Bank's valuation is binding. The process of analysing and valuing different types of loan assets is broadly in line with mainstream market methodologies applied to rate securities backed by equivalent assets. The Bank's valuation methodologies are kept under review to ensure they remain appropriate.

49. The SMF Annual Report may be of interest in obtaining an indication of the range of haircuts applied to loan pools and is available from the Bank's website[9].

50. Haircuts will be updated on a monthly basis following receipt of the updated pool data provided by the participant. Participants can monitor the value of pools via statements from the Bank's Collateral Management & Custody Team[10] which can be requested daily, weekly and monthly, or at the point of drawdowns.

51. **The underlying assumptions used to calculate our haircuts are calibrated to a very severe stress, so they should not vary 'through the cycle'**. The Bank is conservative in its lending in order to avoid any unnecessary risk to public funds in pursuit of its monetary and financial stability objectives. As such, it takes a prudent approach to valuing and setting haircuts on loan collateral. Whilst the Bank regularly reviews its methodologies to ensure they remain appropriate, the conservative assumptions aim to provide predictability for participants, for example by avoiding where possible the need to change our underlying assumptions in a downturn, which might otherwise cause an increase in haircuts at that point. Nevertheless, haircuts will continue to be updated to reflect the underlying changes in the risk characteristics of the pool (consistent with the monthly updates currently conducted).

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[9] https://www.bankofengland.co.uk/sterling-monetary-framework/annual-report-2017-18
[10] CMCSCP@bankofengland.gsi.gov.uk

3 Timings and costs

3.1 Timings

1. The time taken for the prepositioning process depends on the complexity of the assets. For vanilla residential mortgages, it generally takes four to five months to position loan collateral at the Bank, if the participant uses third party auditors and legal counsel who are experienced in dealing with the Bank regarding loan positioning.

2. For more bespoke residential mortgage loan pools and non-residential loan pools (such as lending to larger corporates or commercial real estate), the time taken to position collateral can take significantly longer.

3. Previous participants have incurred significant delays due to the following reasons:
   - Misleading or unclear information provided to the Bank regarding the asset types to be prepositioned;
   - Non-transparent and infrequent participant communication during the positioning process;
   - The participant employing auditors and/or legal counsel who are inexperienced in dealing with the Bank regarding loan positioning;
   - Loans are underwritten using bespoke terms and conditions;
   - Inadequate system capabilities for data production; and
   - Inability to meet our data and transparency requirements.

3.2 Costs

4. The main costs incurred by participants relate to the data audit and legal review. Legal work conducted both for the participant and for the Bank will be charged back to the participant. The levels of due diligence required are to ensure the Bank obtains a level of assurance at least as great as would be obtained for a securitisation.

4 Loan eligibility

4.1 Eligibility principles

1. The Bank adopts principles regarding eligible collateral which can be applied in a fair and consistent way across all counterparties. The high level principles that the Bank applies are as follows:
   - The Bank only accepts collateral that it can value or risk-manage effectively. Risk management should mitigate the financial and operational risks associated with holding the collateral. The Bank should be able to risk manage eligible assets using existing resources or with additional resources obtained at a proportionate cost.
   - Eligible assets must be held in sufficient quantity by a range of SMF-eligible participants to support the Bank's lending facilities.

4.2 Eligibility criteria

2. Eligibility requirements relate to the participant, the pool and the underlying loans[11].

Participants must meet the following criteria:

- Participants must meet the Bank's expectations for a prudent lender within the business line of loans being considered as collateral.

Loan portfolios must meet the following criteria:

- At the time of prepositioning and on an ongoing basis, individual loan portfolios must have a minimum notional value of £25m;
- At the time of prepositioning and on an ongoing basis, individual portfolios must be sufficiently granular in nature and meet the Bank's granularity requirements (set out in Table 2 below); and
- Assets within the pool must be sufficiently similar such that they can be risk managed as a single pool.

Individual loans must meet the following criteria:

- The loan must be a residential mortgage, consumer loan (excluding credit cards), asset finance loan, auto loan, private finance initiative loan, social housing loan, commercial real estate loan or corporate loan to a non-bank (including small and medium-sized enterprises);
- Asset finance and term loans under HM Treasury's CBILS and CLBILS schemes, and term loans under BBLS, qualify under these criteria. These loans must be pledged in separate pools and cannot be added to existing loan pools. Only loans with a valid government guarantee are eligible. If a loan guarantee is cancelled by the guarantor or the guarantee agreement is terminated by either party, then the loan will cease to be eligible.

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[11] The published eligibility criteria can be found here: https://www.bankofengland.co.uk/markets/eligible-collateral

- The loan must be fully drawn, senior and for a fixed term, or a loan under a revolving credit facility (excluding credit cards);
- The borrower must be domiciled in the United Kingdom with, in the case of a corporate, its centre of main interest in the UK;
- The underlying loans must be denominated and repayable in pounds sterling, euro or US dollars. In a given portfolio, all loans must be of the same denomination;
- The loan must be governed by the laws of England and Wales, Scotland or Northern Ireland;
- The loan must have been originated by the participant (or where applicable, third party lender) in accordance with the participant's (or where applicable, third party lender's) standard lending criteria;
- In the event that the participant's documentation lists the owner of a loan asset as being a legal entity other than the participant, evidence, such as a formal legal opinion from legal counsel, that the participant is the legal and beneficial owner of the loan asset will be required. In addition, further evidence such as a loan portfolio sale agreement and evidence of board approval authorising the sale may be required;
- The underlying loan documentation must not include restrictions on the disclosure of communications, financial and/or other information to the Bank, subject to appropriate confidentiality undertakings;
- No borrower should be in arrears or in default at the point of prepositioning. Loans that subsequently fall into arrears or default post-prepositioning should be retained in loan portfolios and will be assigned an appropriate default probability. (The Bank requests participants leave loans that fall into arrears in the pool, rather than clear them out each month);
- The residual loan maturity at prepositioning (excluding consumer, auto and asset finance loans) must be between three months and forty years; and
  At the time of prepositioning, loans must meet the Bank's minimum seasoning requirements (set out Table 1 below). For asset finance under HM Treasury's CBILS and CLBILS, the minimum seasoning requirement remains one month.
- For term loans under HM Treasury's CBILS and CLBILS only, the minimum seasoning requirement is two months; for loans under BBLS only, no minimum seasoning requirement applies.

Table 1: Minimum Loan Seasoning

Asset type	Minimum loan seasoning
Asset Finance, Auto Loans & Consumer Loans	1 month
Residential Mortgages	2 months
Corporate, PFI, SME & Social Housing	3 months

Table 2: Borrower Concentration

Criterion	Limits
Effective Number of Borrowers (ENOB)	Min 30
Top 1 Borrower	Max 10%
Top 5 Borrowers	Max 30%

EFFECTIVE NUMBER OF BORROWERS CALCULATION

ENOB is calculated by dividing one by the sum of the weighted exposure to each borrower squared.

$$\text{ENOB} = \frac{1}{\sum W_m^2}$$

where W_m = Weight of the exposure to borrower m in the pool

i) £1m pool with 4 borrowers with equal exposures

Borrower	Exposure	Weight
A	£250k	0.25
B	£250k	0.25
C	£250k	0.25
D	£250k	0.25

Effective number of borrowers =
$1 / (0.25^2 + 0.25^2 + 0.25^2 + 0.25^2) = \mathbf{4}$

ii) £1m pool with 4 borrowers with unequal exposures

Borrower	Exposure	Weight
A	£100k	0.1
B	£100k	0.1
C	£100k	0.1
D	£700k	0.7

Effective number of borrowers =
$1 / (0.1^2 + 0.1^2 + 0.1^2 + 0.7^2) = \mathbf{1.9}$

Further guidance:

- The loan must have a low expected probability of default as determined by the Bank and evidenced by the participant's internally or externally assigned rating, or as otherwise agreed with the Bank;
- Pools, and loans within them, should be a representative sample of the participant's loan book. They should not be adversely selected;
- Buy-to-let mortgages are eligible;
- Certain offset mortgage products are eligible, although current account mortgages are not;
- Loans to banks, building societies, bank holding companies, and companies within banking groups will not be eligible;
- Term loan facilities where the Bank's eligibility criteria are met only as a result of any letters of credit/bank guarantees will not be eligible;
- Loans where a subordinated creditor has material control over the exercise of the rights of the senior lender(s), or where the rights of the senior lender(s) are subject to onerous restrictions will not be eligible;
- Subordinated debt (including second ranking loans) will not be eligible; and
- Loans under partially drawn term loan facilities, where the lender of record may be legally required to provide further advances, or where part of the term loan is made available by letter of credit/bank guarantee will not be eligible. In certain limited instances some loans with an undrawn element may be eligible, where the Bank does not inherit any obligations to fund further advances.

11. Raw loan pools may not be appropriate for all participants and therefore participants should also consider the wider range of eligible collateral the Bank accepts. Further information can be found on the Bank's website[12].

12. The Bank will keep its eligibility criteria under review and reserves the right to amend it at any time.

[12] See https://www.bankofengland.co.uk/markets/eligible-collateral

5 Loan pool composition

5.1 Summary

1. Loan collateral is structured into pools whereby loans are grouped and referred to collectively under one unique pool identifier. Multiple factors determine how the total loan collateral will be split into separate pools:
   - Different asset classes must be in different pools (e.g. residential mortgages are to be kept separate from SME loans).
   - For legal reasons, loans written under the laws of England, Wales and Northern Ireland can be included in the same pool, but loans written under Scottish law must be held in a separate pool.
   - Participants may split large portfolios into smaller pools to enable them to preposition and draw on individual pools without encumbering large values of loans.
   - There may be participant specific reasons for splitting certain loans (e.g. based on brand, IT system or legal risks). These will be discussed bilaterally with impacted participants.

5.2 Maximum number of pools

2. This section outlines the Bank's guidance relating to the number of pools a participant may have.
   - The vast majority of participants are expected to require fewer than four loan pools.
   - The Bank will consider proposals to create additional pools where there is a clear justification for doing so. Given the operational overheads required for processing multiple pools, the Bank may not be able to accommodate all requests.
   - Participants should also consider the implications when having multiple pools means individual pools are concentrated or small in nominal terms. The Bank looks to accept pools which are as granular and diversified as possible (including across borrowers, geography, vintage and asset type (e.g. mix of buy-to-let and owner occupied)). Concentrated pools are likely to receive higher haircuts or in certain cases be deemed ineligible.
   - With the agreement of the Bank, participants are able to merge and split loan pools post prepositioning, providing flexibility if the participant's circumstances change.

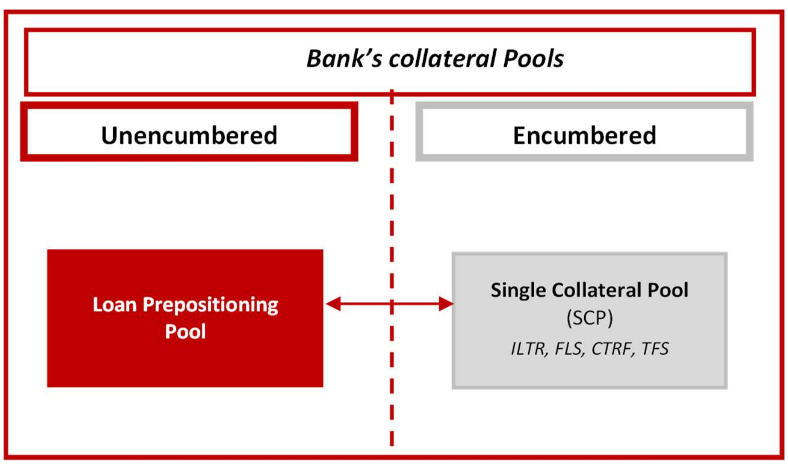
6 Loan pool utilisation

6.1 Prepositioning process

1. The Bank operates a collateral pooling model to support its liquidity operations. Participants maintain one or more collateral pools of securities and loans, to cover the exposures the Bank has to that participant. The collateral is not earmarked against individual transactions. Instead, subject to the application of the Bank's risk controls, the aggregate adjusted value of the collateral held in each pool will be used to collateralise the aggregate value of the Bank's exposure(s) to that participant managed in that pool.

2. Once deemed eligible, the Bank will arrange for participants to preposition the pool. Unlike other forms of collateral which are encumbered as soon as they are delivered to the Bank, participants can preposition loan collateral. In effect this means the loan pool is held in the 'Loan Prepositioning Pool' ready to be used without becoming encumbered. The Bank strongly encourages participants to preposition loan collateral, even if there is not a need to use it in Bank schemes at present, so that it is available at short notice if there is an unexpected need. Other types of collateral – such as securities – are directly encumbered into the Single Collateral Pool (SCP).

3. If the participant wishes to encumber the loan pool within one of the schemes, this can be completed the day after prepositioning. At this point the pool will transition from the 'Loan Prepositioning Pool' to the SCP. Note that pools cannot be encumbered without first being transferred to the 'Loan Prepositioning Pool'.



Prior to prepositioning day

4. Once eligibility has been confirmed, the Bank will outline the steps that participants need to follow to operationalise prepositioning.
   - A mutually convenient prepositioning date will be agreed between the participant and the Bank (Fridays are avoided where possible). Participants should ensure that its legal counsel is also available.
   - Participants should sign (but not date) hard copies of all necessary legal documents - annex, power of attorney and side letters (plus declaration of trust documents where necessary). These must have been received by the Bank in advance of pre-positioning.
   - If the latest loan level data tape is more than a month old, an updated tape will be required so that an appropriately updated haircut can be calculated.

Prepositioning day instructions

5. On the day of prepositioning the Bank will require participants to complete the following steps before 10 am:

- **Submit a balance for the pool to the external portal** - This should be the nominal current balance of the pool as at close of business the previous working day. This should be submitted under the relevant pool identifier within the 'Weekly Balances' folder of the portal. Once uploaded please email LoansData@bankofengland.co.uk, DWF.Loans@bankofengland.co.uk and the participants lead collateral analyst to confirm submission and include the balance figure within the email. Where participants are positioning multiple pools, individual balances are required for each one.
- **Bank's Collateral Management & Custody team 'Collateral In' form -** This is a spreadsheet outlining the change to the Bank's Collateral Management & Custody team. The form can be found on the Bank's website[13]. Only the 'Collateral In – Increase' tab needs to be completed. Trade type should be external, nominal balance should match the figure uploaded to the portal (including decimal places) and the destination pool should be 'LOAN PRE POS'. Please send this to CMCSCP@bankofengland.co.uk, LoansData@bankofengland.co.uk, DWF.Loans@bankofengland.co.uk and the participant's lead collateral analyst.
- **Legal Counsel to execute documents -** The participant's legal counsel should date the legal documents previously approved (due diligence/core terms report and opinion) and send copies to the Bank's external legal counsel. This should be completed as early as possible on the day of prepositioning. Participants are encouraged to remind their lawyers ahead of the day. The Bank of England's external legal counsel will then collate the documents up with its own reports and send the Bank a 'Conditions Precedent Email' which brings together all the legal due diligence.

Once all of the above is completed the Bank will be in contact to confirm prepositioning. Should any of the above be delayed then prepositioning may need to be postponed to another date.

KEY DEADLINES
Prepositioning *All steps must be completed before 10am*

[13] See the 'Confirmation template' document - https://www.bankofengland.co.uk/markets/collateral-and-settlement

6.2 Encumbrance and unencumbrance of loan pools

6. Encumbrance of loan pools should be discussed with the Bank's Middle Office to arrange a suitable date (LoansData@bankofengland.co.uk). Participants should provide 24 hours' notice to encumber or unencumber a equitable assignment pool and 5 days' notice to encumber or unencumber a declaration of trust pool. Encumbrance can only be done the day after prepositioning (i.e. in normal circumstances participants cannot preposition and encumber the same day).

7. Once a date has been agreed for the un/encumbrance to take place, the Bank requires the participant to complete legal documentation. Depending on whether the pool is transferable by way of an equitable assignment or declaration of trust will alter the documents which need to be completed.

KEY DEADLINES
Un/Encumbrance *Equitable Assignment:* 24 hour notice *Declaration of Trust:* One week notice
Un/Encumbrance on the day *All steps must be completed before 10am*

Encumbrance

8. **Declaration of trust pools (only)** – The Bank will send across additional documentation which will need to be signed ahead of completing encumbrance. The Bank will need to receive the hard copies of the additional documentation prior to the day of encumbrance in order to process the movement.

9. The following documentation should be provided by 10am on the day of encumbrance:

- Bank's Collateral Management & Custody team **'Collateral In' form** - This is a spreadsheet outlining the change to the Bank's Collateral Management & Custody team. The form can be found on the Bank's website[14]. Only the 'Collateral In – Increase' tab needs to be completed. Trade type should be internal, nominal balance should be the most recent balance uploaded to the Bank's portal (either at prepositioning or the last weekly balance submission) and the destination pool should be SCP. Please send this to CMCSCP@bankofengland.co.uk, LoansData@bankofengland.co.uk, DWF.Loans@bankofengland.co.uk and the participant's lead collateral analyst.

- **Loan Collateral Transfer Request Notice (LCTRN)** – This document legally encumbers the pool and can be found on the Bank's website (https://www.bankofengland.co.uk/markets/collateral-and-settlement). Please ensure this is signed by the relevant number of authorised signatories and emailed to CMCSCP@bankofengland.co.uk, LoansData@bankofengland.co.uk, DWF.Loans@bankofengland.co.uk. The balance should match the figure included on the 'Collateral In' form.

[14] See the 'Confirmation template' document - https://www.bankofengland.co.uk/markets/collateral-and-settlement

Unencumbrance

10. Only the above Bank's Collateral Management & Custody team form is required. The destination pool should however be 'Loan Pre Pos' and source pool 'SCP'. Please email this before 10am to CMCSCP@bankofengland.co.uk, LoansData@bankofengland.co.uk, DWF.Loans@bankofengland.co.uk.

11. Whilst participants are free to move collateral as they see fit, frequent un/encumbrance is to be avoided. Participants must have a clear rationale if movements become frequent.

12. Participants are able to use excess collateral across different schemes within the SCP (i.e. excess collateral in the FLS and TFS can be used to draw in the ILTR and CTRF).

13. During the transaction's term, the participant must record and hold in trust all sums that belong to the Bank, as per the SMF operating procedures. This includes any payments of interest or capital that are received from any borrower, issuer or guarantor relating to the loans. Provided that no Event of Default or Potential Event of Default shall have occurred or be continuing and no obligation owed by the participant is outstanding under the Terms and Conditions, then the participant may release from the trust any such sums (i.e. if the participant is over collateralised cash is immediately released from trust).

14. The Bank would not normally expect to physically receive the cash flows generated by loan portfolios during the drawn period, nor would it normally require the participant to establish segregated accounts for the collection of these payments, except, in relation to a participant default. Participants should ensure that it has the ability to do this within systems ahead of prepositioning. This is assessed by the Bank on the site visit.

6.3 Drawing within schemes

15. Once collateral has settled in the Single Collateral pool, the participant may access the Bank's facilities, via communication with the Bank's front office (Sterling Markets Division). Quick Reference guides are available on the Bank's website for SMF operations[15].

16. When determining the amount to draw the participant should consider what buffer it wishes to hold between the collateral value after haircuts and drawings. Given amortisation, loan pool values will decrease over time (assuming no top ups) and therefore participants need to have a future plan to prevent margin calls being made if the collateral is not sufficient to cover the Bank's exposure.

17. Particularly for non-granular pools, the maturity or early prepayment of a large loan may see the value of the collateral decrease significantly in a short period of time. A larger buffer is sensible to protect against unexpected changes in these cases.

[15] https://www.bankofengland.co.uk/-/media/boe/files/markets/term-funding-scheme/quick-reference-guide.pdf?la=en&hash=FBAA2CB64E2A57ED67D6D1F6B2619925A62AF75B)

7 Monitoring loan pools post prepositioning

1. Following prepositioning of a loan pool, the Bank conducts ongoing surveillance and due diligence to provide continuing comfort on the participant and the quality of its positioned portfolio.

7.1 Data requirements

2. The Bank has three key requirements for the purpose of ongoing provision of data in relation to a positioned loan pools. In regards to both submissions, participants should upload files to the Bank's External Portal. Participants are expected to fully comply with the outlined requirements and deadlines although if participants encounter any issues, please contact the Bank's Middle Office via LoansData@bankofengland.co.uk to discuss anything that is unclear or pre-warn of any delays.

KEY DEADLINES
Weekly Balance – 12pm every Friday
Monthly Data Tape – By 10th working day post the cut-off date

Weekly balance

3. On a weekly basis, participants are required to submit an updated balance for each individual pool positioned. This allows the Bank to maintain an accurate valuation and will determine how much the Bank can advance. The updated balance should be taken as at close of business Thursday. Submissions must be made by 12 noon on Friday via the External Portal. Where this is not possible (e.g. due to public holidays) the Bank will contact participants to arrange submission for the nearest working day.

Box 8: Weekly Balance Requirements

- *Explanations for balance changes should be included within the comment functionality of the Portal.* Material changes must also be discussed with the participant's lead collateral analyst.
- *Balances should only reflect the aggregate outstanding principal balance.* Accrued interest must not be included.
- *The balance date input in the Portal should be as at the Thursday*; not the date of submission (i.e. Friday).
- *Any further advances that take place must be included in the first weekly balance post completion.*
- *The current balance of loans in arrears should be included in the balances of residential mortgages, consumer loans, and auto loans pools.*
- *The current balance of loans in arrears should be excluded from the balances of asset finance loans, SME and corporate loans, PFI loans and social housing loans pools.* This includes arrears of any length/magnitude. If loans return to performance their balance should be reinstated.
- *For loans under HM Treasury's CBILS, CLBILS and BBLS schemes only, loans in arrears can remain in the current balance if the government guarantee is still valid and has not been claimed. However, once these government-guaranteed loans default, they should be excluded from the current balance.*

Monthly data tape

4. On a monthly basis, participants are required to provide an updated loan pool tape. This should be submitted within 10 working days of the cut-off date (unless otherwise agreed with the Bank) which should be the end of each month.

5. The Bank uses this loan pool tape to recalculate haircuts and capture amortisation movements in the portfolio. Participants should expect to see haircuts change each month in response to these changes. The updated haircut will be reflected in statements from the Bank's Collateral Management & Custody team (see above). Loans which have matured should be flagged as such within the pool tape for one month before being removed.

Box 9: Monthly Data Tape Requirements

- *Once loans are included in pools they should only be removed when they redeem or with the prior approval of the Bank.* Redeemed loans should be retained within tapes for one submission post redemption with a zero current balance (AR67) and "redeemed" account status (AR166), (AR codes based on the residential mortgage data tape). They must be removed in all subsequent tapes.
- *Loan, borrower and property identifiers must remain unchanged between data submissions.* Any changes must first be communicated and agreed by the Bank. Consistency is important to allow the accurate tracking of loan performance through time and in monitoring churn within the pool (outlined later). For corporate loans the underlying loan identifiers can change as long as the facility ID remains constant.
- *Loans which fall into arrears post prepositioning should remain in all pools* (both residential and non-residential assets).
- *Participants must inform the Bank where loans are intended to be sold, for example when non-performing loans are sold to debt management companies*. If the loans are encumbered, the Bank must be informed before the transaction completes because it will need to re-assign or where relevant, release the loans from trust, its interest in the loans back to the participant. This is to ensure that the participant has full legal and beneficial title to the loans before its sale to a third party.
- *Further advances must be included within the next submission post completion.* The Bank's expectation is that the participant would be granted a first ranking, registered 'all monies' charge by the borrower so that any subsequent further advances would be protected by the initial charge and have the same first-ranking priority as the initial advance. They must therefore be reported within tapes. There is no minimum seasoning requirement for further advances.
- *The treatment of loans subject to a product switch will depend on whether that loan is deemed to have been amended or redeemed and a new loan ID established.* If both the following conditions are met, product switches must be retained in the pool with the revised product details reported in the next data tape:
    - Account numbers remain the same; and
    - Borrowers and property are consistent with pre-switch.

  If these conditions are not met, then loans will need to be removed and treated in the same way as a redeemed loan (both in the weekly balance and data tape). As part of the periodic participant due diligence (detailed below), the Bank will ask the participant to confirm if product switches have resulted in loans being retained in the pool that have been underwritten on different terms and conditions that have not been through the Bank's legal due diligence. If new terms and conditions are present, the Bank will require the participant to provide a blacklined version of the changes for review by the Bank's legal counsel. Where changes are deemed to be material, repeat legal due diligence may be required.

Quarterly vintage curves *(Only applicable for - Asset Finance, Auto and Consumer Loans)*

6. Revised versions of the vintage curve data must be submitted every quarter to provide the Bank with an updated view of the participant's loan book performance. Timings should be agreed bilaterally with the Bank to ensure this data is available in advance of regular top ups.

7. Data should be submitted to the 'Supporting Documents' folder of the external portal and an email sent to the lead collateral analyst to make them aware of the submission.

7.2 Periodic participant due diligence

8. In addition to data requirements, participants are required to update the Bank of any significant changes to its business that might impact the Bank's view of the participant's eligibility.

9. Participants should expect regular contact with the Bank although generally once a year the Bank will undertake a more in-depth review. This will reconsider the risks associated with the participant and pools with a focus on the changes made compared to the previous assessment. This is an opportunity for the Bank to reconsider eligibility and any idiosyncratic haircut adjustments.

10. The review will be conducted on a similar basis to when the pool was originally accepted for prepositioning. The Bank will request a tracked change version of the Due Diligence Questionnaire along with updated versions of all supporting documents. The same requirements as those outlined in Section 5c should be followed. The Bank will get in contact with participants to request this.

    - For participants the Bank rates poorly, regular site visits will be conducted. These will generally be conducted annually, however the Bank retains discretion to conduct site visits more or less frequently. DDQ submissions must be received at least ten working days before the visit. The site visit format will typically follow the same structure as that prior to prepositioning with the same individuals in attendance.
    - For all other participants, the Bank will review the DDQ submissions and decide whether a follow up conference call or site visit is necessary. Conference calls typically last for two hours with the agenda set by the Bank to focus on key areas of interest from the submitted DDQ pack.

11. The Bank uses the aforementioned due diligence exercise to formulate an updated assessment of the participant and their positioned pools which is taken to the Bank's Collateral Review Committee. Unless any changes are agreed, participants will generally not receive any feedback following this meeting.

7.3 Repeat cycle for legal and data audit due diligence

12. The Bank will also repeat the legal and data audit due diligence on a periodic basis. This provides the Bank with reassurance that there have been no changes to the data quality or legal risks over time. Timings will be determined by the Bank based on the asset type, results of the previous reviews and the reporting received from the participant post prepositioning. The table below indicates the standard cycles per asset type.

RESIDENTIAL < £10bn positioned	RESIDENTIAL > £10bn positioned	SOCIAL HOUSING & PFI	CORPORATE & SME	ASSET FINANCE, AUTO & CONSUMER LOANS
4 years	2 years	4 years	2 years	1 year

13. Where possible, external due diligence is completed in unison with the participant assessment outlined above. Sample sizes are based on the same approach as those at prepositioning and will be communicated bilaterally with participants.

14. The legal review should be conducted on a 'bring down' basis whereby the participant's legal counsel takes the most recently completed reports and highlights areas which have changed. This should reduce the time/cost of completing the due diligence and ensure the reports are focused on areas of change. In order to avoid additional

costs, participants should try and use the same lawyers for this updated review as those used for the original due diligence.

15. In practice, external due diligence is likely to be required more frequently than that implied above due to participants topping up pools with additional loans. This is explained in section 8 below. The above cycles should therefore be considered as a backstop to ensure the Bank gets an updated opinion on the pools on a regular basis.

8 Managing loan pools post prepositioning

1. Participants are expected to plan ahead and inform the Bank in advance of its collateral plans. To assist with this, the Bank emails participants periodically to request details of activity over the coming year. This allows the Bank to ensure sufficient resources are available to meet requirements. The Bank will try and accommodate changes to these plans although cannot guarantee to meet participants requests should advance notice not be provided.

8.1 Topping up loan pools

2. Top ups may be required to ensure drawings are fully collateralised and/or provide participants with additional drawing capacity. The Bank allows loan pools to be topped up at its discretion and subject to due diligence requirements. Additions to pools may occur where the loans being added are similar to those already in the pool, for example, they are of the same business line, utilise the same standard loan documentation and are held on the same systems.

3. Top ups are normally added to existing pools although the Bank may consider requests to preposition additional loans in new pools if deemed appropriate (i.e. under new pool identifiers). The review process is identical regardless of which approach is taken.

4. **Participants are permitted to top-up loan pools from each asset class twice per year.** If a participant has multiple residential mortgage pools, then all pools should be topped up at the same time. Exceptions may be considered and agreed bilaterally between the Bank and the participant if appropriate (for example, for fast amortising asset types). Top ups can be completed for both unencumbered and encumbered pools.

5. Ahead of each top up the Bank will complete a 'kick off' call with the participant to ascertain its plans and get further information on the additions. Ahead of the call the participant must answer the below queries via email to inform the discussion:
   - Background information on the driver of the top up (including planned utilisation of Bank schemes).
   - Indication of the value and number of loans included within the top up.
   - An outline of any material changes to the origination process or risk profile of these loans (where not covered by a recent review of the participant).
   - A proposal for which pools the participant wants to add loans to.
   - Confirmation of any changes to:
     - The terms and conditions under which the top up loans were written (versus the documentation reviewed previously by the Bank).
     - IT systems or the data tape creation process.

Box 10: Changes to terms and conditions

Where there have been any changes to T&Cs, participants must provide the Bank with tracked changed versions of the documents and any readily available summaries of the changes which outlines the reason they were made (e.g. papers taken to the participant's risk committees or board). Documents should be uploaded to the external portal and the participants lead collateral analyst informed. Once received, the Bank's internal lawyers will review the changes to assess their materiality. Should they be significant, the Bank will outline what legal due diligence will be required ahead of the top up being accepted. This review will be consistent with that outlined above for the periodic cycle.

Churn threshold

6. A churn threshold determines if a repeat data audit is required. Churn is calculated using the below formula at the participant level, per asset type (i.e. if a participant has multiple pools of the same asset type then balances are added up across them). Participants with multiple asset types will have a churn figure for each one (e.g. one for residential mortgages and one for social housing).

$$\textbf{Churn by loan value (\%)} = \frac{\textit{Sum of current balance of loans added since last data audit}^{16}}{\textit{Current balance of loans in data tape in month of last data audit}}$$

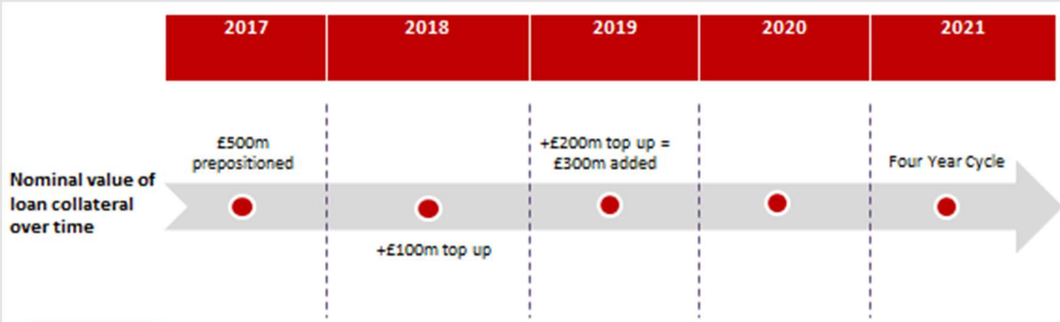
7. Participants are generally able to add loans to pools without a data audit until they breach the threshold. The threshold therefore creates an upper limit. This limit differs by asset type (see table below). These should be considered purely as a guide, with the Bank retaining the right to request due diligence below these thresholds if it deems necessary.

8. The maximum number of times the Bank will generally request external due diligence in any one year is twice (per asset type). Wherever possible this will be limited to once per year.

RESIDENTIAL <£200m positioned	**RESIDENTIAL** >£200m positioned	**CORPORATE, SME & SOCIAL HOUSING**	**PFI**	**ASSET FINANCE, AUTO & CONSUMER LOANS**
100%	50%	50%	0% *(DD required on all top-ups)*	Unlimited

16 Current balance should be taken as the balance of loans when they were added (i.e. day of prepositioning/previous top ups).

Box 11: Churn Calculation Worked Example



	2017	2018	2019	2020	2021
Churn	0%	100/500 = 20%	300/500 = 60%	-	-
Legal/audit completed?	Yes – initial prepositioning	-	Yes - 50% churn breached	-	Yes – Across all loans

- Participant X approaches the Bank as a new participant and completes due diligence on £500m of owner occupied residential mortgages. This is split at prepositioning into three pools (A - £100mn, B - £200mn, C - £200m).
- One year later Participant X wishes to preposition an additional £100m of identical newly originated assets to replace amortisation. How these additional assets are added does not make a difference to the churn calculation given it is done at the participant level – Participant X could therefore split the loans between the three pools (A, B & C), add the £100m to just one of the pools (e.g. A) or preposition them using a new pool (i.e. D). The existing pool has amortised down to £400m – the Bank continues however, to use the original £500m in its churn calculation.
- Participant X has a churn threshold of 50% given it prepositioned residential mortgages (valued greater than £200m). £500m underwent due diligence originally, so 50% (£250m) is the maximum value of loans which could ordinarily be accepted without an additional data audit. Participant X confirms that T&Cs remain the same and that there have been no system changes. Given the £100m top up is within churn (20%), the Bank confirms that no external due diligence is required. The Bank reviews the top up data tape and approves the top up.
- A year later the pool has amortised down to £400m. Participant X approaches the Bank again with £200m of additional loans. If accepted, Participant X will have added £300mn since prepositioning. £300m breaches the £250m (50%) churn threshold. Given this, a data audit is completed only on the additional £300m loans added since the last review. There have been no changes to T&Cs and therefore legal work is not required.
- Post the data audit churn is reset to zero. Total collateral across all pools is now £600m (£400m from the existing amortised pool plus £200m top up). The denominator of the churn calculation therefore becomes £600m (i.e. the latest value of loans which have previously been part of a data audit).
- Participant X does not add any further collateral for several years and the collateral amortises to £300m. The four year cycle for repeat due diligence is however, due in 2021. Audit and legal work is therefore repeated for <u>all</u> loans currently prepositioned/encumbered (i.e. all £300m – which includes a mixture of original and top up loans). Once completed the 4 year cycle is reset for 2025.

Variants

- *If systems had materially changed* in 2018, the Bank may have required a data audit rather than allowing churn to occur. Should a core system be replaced then the data audit would look to assess the migration. This would have meant churn was reset in 2018.
- *If T&Cs had materially changed* at any point before 2021 then the Bank would have requested legal due diligence be conducted. Where possible the Bank completes legal and audit work at the same time in order to rest the repeat cycle. For example, if the T&Cs had changed in 2019 then both data audit and legal work would be completed and the repeat cycle brought forward from 2021. The four year cycle would therefore have been reset until 2023.

Review process

9. Following the kick off call the participant will need to provide data tapes. If a new pool is being created then the Bank will create a new pool identifier which will be communicated to the participant. This will then appear as an option on the portal. Where the additional loans are topping up an existing pool, the Bank will require two tapes to be uploaded to the portal, under the existing pool identifier, with data extracted as at the same cutoff date:

   - The normal end month data tape which shows the position pre-top up; and
   - Pool post the top up (including both the existing and top up loans)

10. The tapes allow the Bank to make a side by side comparison of the pool before and after the top up. The portal will however, not accept two tapes with the same date in AR1 of the data tape template to be uploaded. Participants are therefore required to manually amend the date of the top up tape to one day before the BAU tape. This will enable the tapes to pass validation. Further information on the use of data tapes during the top up process is included in the box below.

11. The Bank will review the submissions and pass back any queries to the Participant. Should a data audit or legal review be required then these will follow the same process as previously outlined. Participants are not required to re-sign the annex, power of attorney or side letters – the originals remain valid.

12. Once approved the Bank will communicate the revised haircut to the participant and arrange for a mutually convenient day to action the top up (avoiding Fridays).

Box 12: Top Up Timings

The time taken for top ups is dependent on whether external due diligence is required. Where no legal or data audit is completed, top ups can typically be completed within a month (assuming participants are able to meet all of the Bank's requirements in a timely manner).

Where external work – for data audit or legal review – is required it can take up to three months. The process is generally quicker and cheaper than that of initially prepositioning the pools. To reduce costs and delays, the Bank encourages participants to use the same lawyers for this updated review as those used for the original due diligence.

On the day top up process

13. If the additional loans are being positioned as a new pool then the process will be the same as that outlined above. Where the participant is topping up an existing pool the Bank will require participants to complete the following steps:

KEY DEADLINES

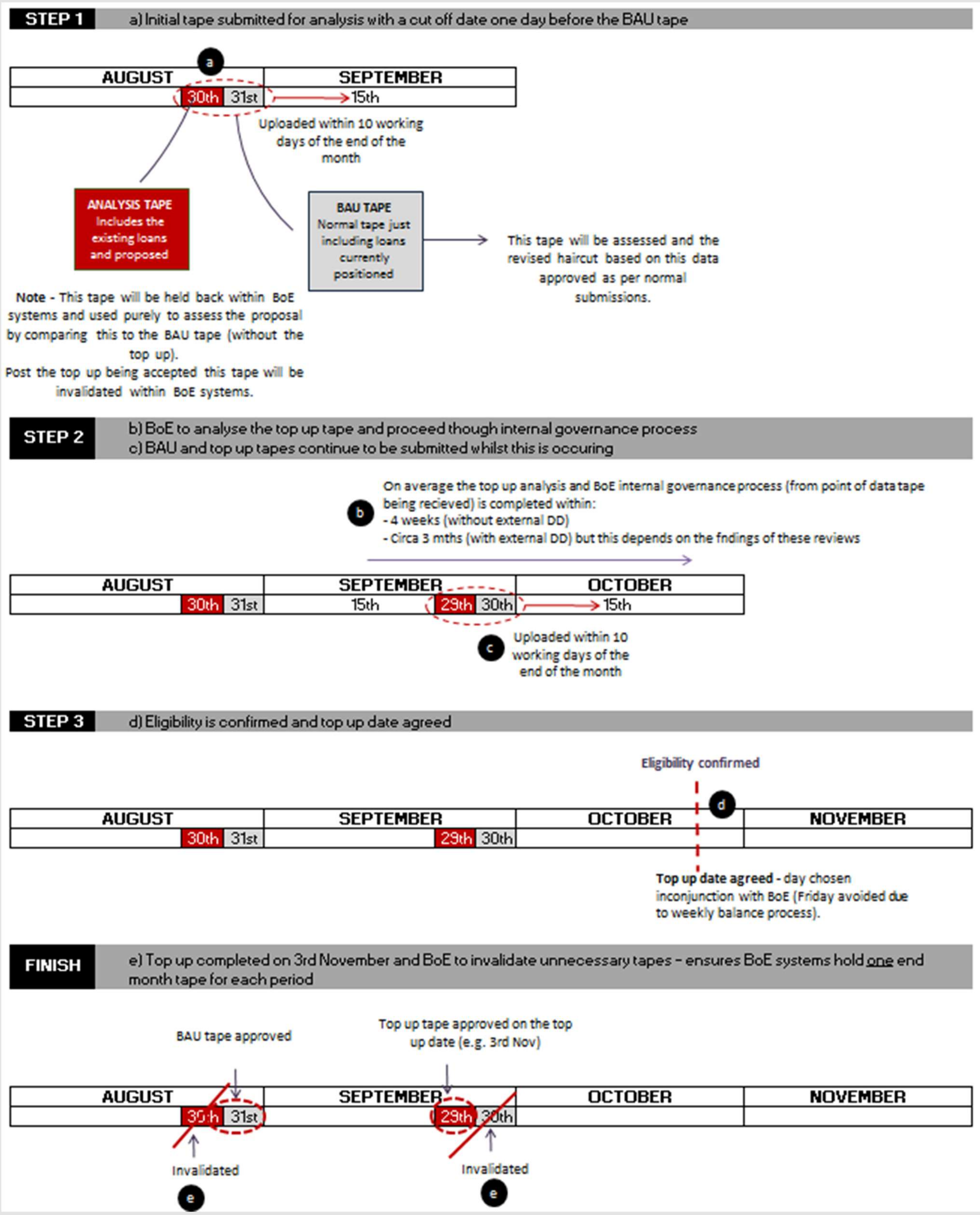
Top ups
All steps completed before 10am

- **Submit a balance for the pool post the top up to the external portal -** This should be the nominal current balance of the pool as at close of business the previous working day (including both the existing loans positioned and the top up loans). This should be submitted under the relevant pool identifier within the 'Weekly Balances' folder of the portal. Once uploaded please email LoansData@bankofengland.co.uk , DWF.Loans@bankofengland.co.uk and the participants lead collateral analyst to confirm submission and include the balance figure within the email. Where participants are completing multiple top ups, individual balances are required for each one.
- **Loan Collateral Transfer Request Notice** (only required if the pool is currently encumbered). Participants should complete this document with the revised nominal of the pool and get it signed by the relevant number of authorised signatories. This should be emailed to LoansData@bankofengland.co.uk, DWF.Loans@bankofengland.co.uk and the participants lead collateral analyst. Forms can be found on the Bank's website (https://www.bankofengland.co.uk/markets/collateral-and-settlement).
- **Legal Counsel to execute documents** (only required if legal work has been completed)**.** The participant's legal counsel should date the legal documents previously approved (due diligence/core terms report and opinion) and send copies to the Bank's external legal counsel. This should be completed as soon as possible on the day of the top up. Participants are encouraged to remind its lawyers ahead of the day. The Bank's legal counsel will then bundle the documents up with its own reports and send the Bank a 'Conditions Precedent Email' which brings together all the legal due diligence.
- **Scottish/English Declaration of Trust** – If the pool is encumbered by way of a declaration of trust the Bank's Middle Office will send across additional documentation for the participant to complete. **This process must be initiated at least 5 working days before the top up date** to ensure sufficient time for the documents to be returned to the Bank. Without these, the top up cannot be completed.

14. Once all of the above is completed the Bank will be in contact to confirm the top up went through as planned. If any of the above is delayed then the top up may need to be postponed. Participants will see the revised higher balance on the Bank's Collateral Management & Custody team statements the day after the top up is carried out.

Box 13: Top Up Data Tape Requirements

For simplicity a top up without external due diligence (audit/legal) is assumed below. Fundamentally this does not alter the below steps except to extend Step 2 to multiple months.



8.2 Splitting pools

15. Although excessive numbers of pools is discouraged, loan pools may be split with the Bank's approval to fulfil a business need. Both encumbered and unencumbered pools can be split.

16. Participants should discuss plans with their lead collateral contact so that a new pool identifier can be created. The participant will therefore have two pool identifiers – one for the existing pool and another newly created identifier which will be used for the loans being split out from the original pool.

17. The Bank will require three data tapes to be completed:
    - The normal end month data tape which shows the position pre-split
    - Existing pool post-split, ie excluding the loans moved to the newly created pool (cut-off date one day before the above tape)
    - The newly created pool made up of the split out loans, if one is created (with a month end cut-off date).

18. The tape requirements are the same as those previously outlined for top ups (with the exception of also needing to upload an additional tape under the new pool identifier).

19. Loans should be allocated randomly between the new pools to ensure they are generally representative of the original pool. There should be no cherry picking. The Bank will review the tapes and compare the impact of the split on haircuts – the weighted average haircut of the two new pools should be broadly similar to the pre-split haircut.

20. The Bank will communicate the required on the day instructions to participants bilaterally in reference to their individual circumstances. Pool splits do not impact participants churn or periodic review timings.

21. Pool splits can generally be completed within four weeks.

8.3 Merging pools

22. Participants with multiple pools of the same asset type can merge them to create larger more diverse pools.

23. However, this is only applicable for pools that are legally transferred by way of an equitable assignment. It is not possible for pools that are transferred by way of a declaration of trust. The Bank strongly encourages mergers, where they are possible, and will require mergers to be completed once participants reach an operationally burdensome number of unnecessary pools or existing pools amortise to small values which result in concentration risk. Both encumbered and unencumbered pools can be merged.

24. Participants should discuss plans with their lead collateral contact who will outline the required approval steps. In the first instance the Bank will require three tapes to be submitted:
    - The normal end month data tapes for the two pools pre-merger
    - Tape reflecting the post-merger position for the remaining pool (cutoff date one day before the above tape)

25. The Bank will communicate the required on the day instructions to participants bilaterally in reference to their individual circumstances. Pool mergers do not impact participants churn or periodic review timings.

26. Pool mergers can generally completed within four weeks.

8.4 Removal of loans

27. Assuming participants have sufficient collateral to secure drawings, loan pools can be removed at any time. Participants are also able to remove a portion of loans from pools. Once removed however, the loans/pools cannot be returned to the Bank without going through the full Bank review as described above.

28. **Principles for removing loans:**
    - Should be limited to as few pools as possible.
    - Should be of material value to warrant the operational costs of completing them.
    - Removing loans from encumbered pools should be avoided wherever possible[17].
    - Removals should not be completed more frequently than annually. Participants should ensure they plan ahead to determine loans it will require to remove.

29. Participants should discuss plans with their lead collateral contact who will outline the required approval steps. In the first instance the Bank will require two tapes to be submitted:
    - The normal end month data tape pool before any loans are removed; and
    - The tape reflecting the post-removal position.

30. If the pool is encumbered then the Bank will also require the Participant to submit an Excel document containing a list of the loan identifiers being removed. This should be uploaded to the supporting documents folder of the Portal.

31. The Bank will communicate the required on the day instructions to participants bilaterally in reference to their individual circumstances. Loan removals do not impact participants churn or periodic review timings.

32. Pool removals can generally completed within four weeks.

[17] Pools should not be unencumbered just to meet this criteria.

9 Information Sharing – External Portal

9.1 Purpose

1. All sensitive data used during the due diligence process is to be uploaded via the Bank's External Loans Portal.

2. Portal functionality allows the upload of weekly balances and monthly loan tapes directly linked to loan pool identifiers as well as any documents or data relating to proposed pools. The external portal is optimised for Internet Explorer v9.

3. All files should have relevant, clear and descriptive names. No special characters should be used and names should be kept as short as possible (e.g. 'LOAN1234567 31032018'). Once files have been uploaded they cannot be edited or deleted by the participant. All files are strictly confidential and only visible to the Bank. Files are not to be password encrypted, as this can lead to the files not passing through the Bank's security and communications being lost.
4. Access and user guidance is provided by the Bank's Middle Office for new participants. It is the participant's responsibility to ensure users retain access and remember log in details. For queries relating to the Portal, including password resets or any other issues, please contact LoansData@bankofengland.co.uk.

5. The Bank will not publically disclose loan level data. The Bank may publically disclose data that has been aggregated and anonymised so that the recipient of such loan level data would not be able to ascertain to whom such data relates. Further information can be found in the SMF terms and conditions[18].

9.2 Gaining access to the external portal

1. Participants should contact the Bank's Middle Office to set up access to the external portal. For each proposed user, the table below should be completed and emailed to LoansData@bankofengland.co.uk. Mobile numbers are used to send users security authorisation codes (similar to those for online banking). The last column is an email address to which validation emails will be sent (i.e. confirmation that data tape submissions have been received and passed checks). Participants generally use a group email address within their finance team for this purpose, to ensure wider awareness.

2. Participants may have a maximum of three users. This is to provide sufficient coverage to account for staff absence. Further users are considered if there is sufficient rationale.

Full Name	Email	Office Phone Number	Blackberry/mobile no.	Email address for receiving validation feedback

[18] As outlined in clause A 16.2 of the terms and conditions: https://www.bankofengland.co.uk/markets/the-sterling-monetary-framework

10 Authorised Signatures

1. Participants using loans as collateral are required to sign documentation both at the point of prepositioning and also when encumbering/unencumbering loan collateral. The individuals allowed to do this on behalf of their participant are detailed within an authorised signatory evidence form.

2. As a participant in the Sterling Monetary Framework, the participant is required to provide an authorised signatory evidence form and documentary evidence to support the authorised signatories. This form must be completed on behalf of your organisation and responsibility is with the participant to keep this up to date, and inform the Bank of any updates or amendments in a timely and efficient manner.

3. To update the authorised signatory evidence form, please complete our proforma. Evidence of authority and specimen signatures are required for the individual(s) signing off the form. We encourage you to read our guidance note on supporting evidence. Please submit your signatory form and/or any questions to our Sterling Markets Division at applications@bankofengland.co.uk

11 Frequently Asked Questions

11.1 Eligible collateral

1. **What is the advance rate/haircut that can be expected for loan portfolios?** For pools of residential mortgages, the Bank is likely to advance between 50% and 85% of the nominal value of the portfolio; advance rates may vary for other loan portfolios comprising other asset classes. The SMF Annual Report 2015-16 provides more details[19].

2. **Are there any restrictions on the type of loan?** A full list of the eligibility criteria for loan pools is included on the Bank's website[20]. Key eligibility criteria however include only loans that are first ranking, written under English, Scottish or Northern Irish law and enforceable in English courts.

3. **Are all loan products eligible?** Each product type will be reviewed by the Bank's legal counsel and an internal committee which will determine eligibility. Participants should contact the Bank if they would like an early indication of whether a loan pool may be considered eligible.

4. **Is there a maximum Loan to Value (LTV) for eligible loans?** No. However, loan portfolios comprising loans with high LTVs are likely to be subject to higher haircuts.

5. **Is there a minimum seasoning?** Yes, although this varies by collateral type. For example, a minimum of two months seasoning is required for residential loans (this does not apply to further advances), and one month for consumer loans to ensure the loan has made at least one payment. In addition a lender should be able to show a reasonable track record of lending.

6. **Is there a restriction on maturity?** The residual loan maturity at prepositioning (excluding consumer, auto and asset finance loans) must be between three months and forty years.

7. **Are loans in arrears considered eligible?** No loans in arrears or defaulted loans should be included at prepositioning. Once a loan pool has been prepositioned, the Bank requires participants to leave loans that fall into arrears in the pool, rather than clear them out each month. Loans that start to re-perform this will be reflected in the model.

8. **Does the Bank permit participants to split portfolios for prepositioning into more than one pool?** Yes. The number of pools permitted is at the discretion of the Bank. The Bank would encourage participants to advise on the number of different business lines and products that are intended for prepositioning and the total amounts. The Bank can then provide guidance on the size and number of pools given practical operational considerations. Separate pools will be required for Scottish loans given the differences in their method of legal transfer. The Bank may also request pools are split dependent on the legal entity which originated the loans within a group or by the IT system they are monitored on. Each portfolio will be allocated a haircut based on credit analysis of the loan tape and the risks associated with that pool.

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[19] http://www.bankofengland.co.uk/markets/Documents/smf/annualreport16.pdf

[20] See https://www.bankofengland.co.uk/markets/eligible-collateral

11.2 Due diligence questionnaire

12 **Where can I find the business due diligence questionnaire?** The business due diligence questionnaire for each asset class is available on the Bank's website (which can be found here).

13 **Does the Bank require a new business due diligence questionnaire for every new portfolio that is being proposed for prepositioning?** Only one questionnaire is required for each business line or product, so if a portfolio being proposed for prepositioning is similar to a portfolio which has already been approved for prepositioning then the Bank is typically content to accept a questionnaire which only details any differences to the original portfolio.

14 **Do Northern Ireland and Scottish loan portfolios require a separate business due diligence questionnaire?** No. Although Scottish loans would need to be separated from English loan portfolios and are subject to separate legal due diligence, a separate business due diligence questionnaire is not necessary. Northern Ireland loans can be submitted in the same portfolio as English loans, but will also require separate legal due diligence. Any differences in policies and processes with Scottish or Northern Ireland loans must be notified to the Bank.

15 **Are any questions on the due diligence questionnaire optional?** Answers to all questions are mandatory unless a valid reason can be given as to why it is not possible to answer.

11.3 Site visit

16. **Where should the site visit take place?** The Bank expects to visit the site where the business unit principal operations for underwriting and servicing are based. In the event that a participant has these operations split over two sites then the Bank would expect to visit both sites.

17. **Why does the Bank request answers to the Due Diligence Questionnaire and presentations prior to the Bank site visit?** It is important that the Bank's representatives come to the site visit able to ask relevant questions on the day. In the event that information is not provided 10 working days before, the Bank is likely to postpone the site visit resulting in a more extensive prepositioning process.

18. **Is there any particular part of the business on which it can be expected there will be specific attention from the Bank?** While the Bank expects to cover all the business areas as per the business due diligence questionnaire and would expect the counterparty to be able to answer any of its questions, its typical focus will be on the underwriting and servicing of loans given its direct risk management considerations for loan prepositioning.

19. **During the site visit, is there anything additional which the participant needs to prepare for?** The site visit presentation and answers to the Bank's business due diligence questionnaire is expected to be completed and sent across to the Bank in advance of the site visit along with any other relevant documentation. The Bank would also request that a 'live' demonstration of its underwriting and servicing is given during the day. This will often take the form of a floorwalk to sit with underwriters/servicers to talk through a couple of live cases.

11.4 Loan data tape

20. **In what format should the loan pool tapes be provided?** Acceptable file formats are Excel 2007 onwards (XLSX), comma separated (CSV) and tab delimited (txt). Files prior to Excel 2007 (XLS) are not accepted.

21. **How can we be sure the data are being provided in the correct format?** The External Portal will automatically validate a loan pool upon upload and reject it with some rationale if the data are unacceptable. If a participant wishes to test the their data early in the process for prepositioning then the Bank is willing to accept test files in order to ensure the data can be received and processed correctly. If you have any doubt over the definition of a field or whether it is mandatory or not please contact the Bank who can provide further advice (LoansData@bankofengland.co.uk).

22. **When do loan tapes need to be provided to the Bank following prepositioning?** Once a loan portfolio has been prepositioned, it is expected that the Bank will receive an updated pool cut each month with all data refreshed. This should be within 10 days of the cut-off date. In addition, a total balance for the loan portfolio should be provided to the Bank each week. Regular late delivery of data will be followed up with participants and actioned upon if necessary.

23. **Where does the Bank require the loan tapes and pool balance information to be sent?** All data relating to the prepositioning of loan pools and associated loan tapes should be uploaded to the Extranet Portal or sent to the following email address: loansdata@bankofengland.co.uk and to the relevant lead and back-up analyst at the Bank.

24. **Do all mandatory fields need to be entered within the loan tape?** Data are requested on a 'comply or explain' basis, so if data cannot be provided for a certain field or a particular definition cannot be used then the basis for the data should be made clear in an accompanying glossary. Please contact the Bank in advance to discuss anything that is unclear or difficult to produce, so that we can provide additional guidance, rather than make assumptions. The Bank will attempt to complete its analysis without the provision of mandatory fields but may need to make conservative assumptions to do so.

11.5 External portal

25. **I have submitted an incorrect weekly balance submission, what should I do to correct this?** If you accidentally submit an incorrect balance, the system does not allow you to correct this. Please contact the Loans Data Team via phone and follow up via email with the corrected balance amount. We will then update the balance on your behalf. Please note however that this amended balance will not appear on your portal screen.

26. **What is the deadline for submitting weekly balances?** Balances should be submitted by 12 noon, although if this is not possible due to unforeseen circumstances, please contact the Loans Data Team using the details above.

27. **I have realised that a recently submitted Loan Pool Tape is incorrect, what should I do now?** The system prevents duplicate loan pool submissions against the same ISIN and cut-off date. Please contact the Loans Data Team via phone and follow up via email. We can invalidate the previous loan pool tape in order for you to submit the corrected pool.

28. **When should I submit a loan pool tape?** Data should reach the Bank within ten working days of the pool 'cut-off' date AR1 (and preferably within five working days). AR1 should be populated with the 'run date' i.e. the date at which data was produced, not the date of submission to the Bank.

29. **What is the maximum file size which I can upload per pool?** Up to ten files with a maximum size of 150MB each can be uploaded per pool.

30. **We want to top up a pool, what should the cut-off date be?** Once FRMD have agreed that a pool may be topped up, please submit topped-up pool data to the portal. The cut-off date for this data should be one day before the previous submission for the pool to allow for comparison of the pool.

31. **I tried uploading an Excel .xls spreadsheet but this has been rejected**. Only MS Excel file type .xlsx may be uploaded.

32. **A new colleague has joined the team. How do I request a portal licence for them?** An existing license may be re-allocated, please email the Loans Data Team with the details of the replacement person and the licence to be re-allocated. If you need additional user licences, please email the Loans Data Team with a business case including the below table.

Full Name	Email	Office Phone Number	Blackberry/mobile no.	Email address for receiving validation feedback

33. **Do I receive an email confirmation for submission of Supporting Documents?** There is no email confirmation for submission of supporting documents, please email your FRMD analyst contact(s) and Loans Data Team, to make us aware that supporting documents have been uploaded.

34. **I have been away from my desk for a while and now I cannot use the portal.** What should I do? Portal access times out after 20 minutes of inactivity. You will need to log into the portal again.

35. **Portal screens look as if they are not properly formatted / aligned.** Screens have been optimised for Internet Explorer 9 (or above). Issues may be resolved by switching to this browser. Although screens may appear misaligned for other browsers, the functionality of portal should still work.

36. **I think I have locked myself out of my account. What should I do?** If you have tried logging in five times or more unsuccessfully your account will be locked. Please contact the Loans Data Team, who will raise this with our IT department on your behalf.

37. **I have lost my blackberry/phone which was linked to my account. What should I do?** If you have lost your blackberry/phone associated to your account, it is possible to switch. Please contact the Loans Data Team via LoansData@bankofengland.co.uk

38. **Can I change the blackberry/phone number linked to my account?** Yes, please contact the Loans Data Team.

11.6 Legal due diligence

39. **At what stage can participants engage with legal counsel?**. Unless the Bank has agreed otherwise, participants should wait until after the site visit before beginning legal due diligence in order to obtain greater certainty of eligibility before incurring costs.

40. **Does the Bank have preferred legal counsel for participants?** The Bank does not specify which legal counsel should be used by participants. . Using firms who are experienced in conducting legal due diligence and issuing legal opinions, in the form and substance expected by the Bank, often ensures a smoother and quicker process.The Bank has observed that where participants use inexperienced firms, the legal review process is often prolonged and may ultimately result in higher fees for the participant. Participants should engage their own legal counsel but inform the Bank of who they intend to appoint in order to avoid any possible conflicts.

41. **What is the sample size and how are they chosen?** The sample size will differ according to the number of loans in the pool planned for prepositioning. Please refer to section 3.6 above for further details.

42. **If there are documents missing from files, how will this affect the results of the sample?** If there are documents missing, a record should be kept of how many, and what types of documents have been lost. The Bank will require an explanation of why files are incomplete and whether this would affect the Bank's ability to take title over the loan being prepositioned and/or enforce the underlying security. Further loans should then be selected until the required sample size is reached.

11.7 Data audit

43. **At what stage can we begin to engage with the auditor?** Unless the Bank has agreed otherwise, participants should wait until after a site visit before beginning data audits in order to obtain greater certainty of eligibility before incurring costs.

44. **Does the Bank have a preferred auditor?** The Bank does not have preferred data auditors. Use of firms who are experienced in conducting collateral audits will often ensure a smoother and quicker process. Therefore, we encourage participants to discuss previous experience with potential firms. Participants should engage their own data auditor but inform the Bank of who they intend to appoint.

45. **What confidence level is required by the Bank?** The confidence interval required will be determined by the Bank and communicated to the participant. Generally a 99/1 or a 99/5 confidence level is required. The sample size required to achieve this confidence level should be independently determined by the external auditor.

46. **If there are missing files, how will this affect eligibility?** To the extent loan files cannot be located for use in the audit, then these should be recorded as missing data with a record should be retained and included in the audit report. The Bank will require an explanation of why there are missing files and whether this would affect the Bank's ability to take title over the loan being prepositioned.

11.8 Finalising prepositioning

47. **When can prepositioned loans be drawn against?** Loans must be prepositioned 24 hours in advance of being drawn against.

48. **At what point do loans become encumbered?** Loans are encumbered once they are transferred into the SCP. Legal title is only perfected by the Bank upon default of the counterparty.

49. **Are there any additional requirements for reporting once a loan pool has been drawn against?** No, the reporting requirements (weekly balance updates and monthly pool tapes) remain the same for prepositioned pools, encumbered pools and pools that have been drawn against.

50. **Does the Bank require cash flows to be diverted once a pool has been drawn against?** No. Provided that an Event of Default or Potential Event of Default has not occurred, the participant will be able to deal with the cash flows and will not have to account to the Bank. Further details are included within the DWF Operating Procedures document available on the Bank's website: https://www.bankofengland.co.uk/markets/the-sterling-monetary-framework.