

LOC

Letters of Credit

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FHLBank Atlanta's (the Bank) Letters of Credit (LOC) provide members with an efficient, low-cost way to attract and secure agreements with third parties. The Bank may issue an LOC to a third-party beneficiary on a member's behalf to function as an independent guaranty of additional credit and collateral for the member's obligation. This product enables a member to reduce financing costs on other forms of debt by offering LOCs that are eligible for triple-A credit ratings.

Benefits

Members can use LOCs for the following types of third-party transactions:

- Attract and collateralize Public Unit Deposits (PUDs)
- Facilitate residential housing finance
- Facilitate community lending transactions that promote affordable housing and economic development, including projects funded with advances from the Bank's Community Investment Program (CIP) and Economic Development Program (EDP)
- Credit enhancement for taxable or tax-exempt bond issuances

One of the most valuable uses of the LOC is attracting PUDs that exceed the level covered by FDIC insurance. Members can use LOCs to collateralize PUDs instead of using their investment portfolios for pledging purposes. With support of the Bank's LOC, members can lower the total cost of retaining PUDs and potentially improve the net interest spread earned on assets funded with these deposits.

All states within the Bank's district accept FHLBank LOCs for PUDs. The District of Columbia does not currently accept FHLBank LOCs for PUDs.

How the LOC Works

- Terms to be structured to meet the specific needs of the underlying obligation
- Can be issued for up to 10 years
 - **Renewable Option**
Renewable every 12 months, up to the expiration date
 - **Non-renewable Option**
Up to 5 years with a fixed term and rate (subject to higher fees/ additional credit restrictions)
- Tiered pricing structure—fees are charged upfront and annually thereafter
- Can be collateralized with the same menu of assets used to collateralize advances
- Please refer to the Bank’s Member Products and Services Guide (MPSG) for additional details

Member Requirements

- LOCs issued only at the request of FHLBank Atlanta member institutions
- A list of Bank members can be found on the Bank’s public website at www.fhlbatl.com
- The following forms can also be found at www.fhlbatl.com and must be completed prior to obtaining an LOC
 1. Agreement for Letter of Credit and Security Agreement
 2. Application for Standby Letter of Credit

Benefits of Letters of Credit

- **Leverages the Bank’s Triple-A credit rating**
- **Provides liquidity by serving as an alternative form of collateral for PUDs**
- **Helps members manage their asset/ liability positions**
- **Offers flexible terms and competitive fees**
- **Helps members attract PUDs that exceed level covered by FDIC**

Agencies that typically accept LOCs include: junior colleges, school districts, local municipalities, county and state agencies, hospitals, economic development companies, electric cooperatives, and a number of other nonprofit entities.

LOC Pricing Tiers

Renewable

Less than \$1 million.....	41.5 basis points
\$1 million to \$5 million.....	29 basis points
\$5 million to \$25 million.....	19 basis points
\$25 million to \$50 million...	14 basis points
Greater than \$50 million.....	9 basis points
PUDs.....	8 basis points

Non-renewable

Up to 3 years.....	+ 1 basis points
Up to 4 years.....	+ 4 basis points
Up to 5 years.....	+ 6 basis points

- There is a minimum fee of \$250 per annum
- Fees billed upfront and annually thereafter
- If an LOC is canceled, any unused fee is pro-rated back to the member
- Pricing and terms are subject to review and to requirements set forth in the Bank’s MPSG

FHLBank Atlanta LOCs

Standby LOC

A Standby LOC, issued by the Bank to a third-party beneficiary on behalf of a member, functions as an independent guaranty of additional credit and collateral for a member's obligation. This product can help a member reduce financing costs on other debt by offering LOCs that are triple-A rating eligible.

The Federal Housing Finance Agency allows FHLBank Atlanta to issue LOCs for four purposes:

1. Facilitate residential housing finance
2. Assist in facilitating community lending
3. Assist in asset/liability management
4. Provide liquidity or other funding

Wrap LOC

A wrap LOC, (also known as a confirming LOC), is an LOC issued by the Bank that promises to pay funds to the beneficiary upon the beneficiary's request after the member has defaulted or failed to pay on its LOC.

In a bond transaction, the member issues an LOC as credit enhancement for the bonds, and the wrap LOC issued by the Bank serves as a guarantee of the member's credit enhancement obligations.

LOC for Tax-Exempt Bond Issuances

Under the Housing and Economic Recovery Act of 2008 (HERA), Standby LOCs can be used as additional credit support in non-housing-related tax-exempt bond transactions without jeopardizing the bonds' tax-exempt status, for those bonds issued or refunded between July 30, 2008 and December 31, 2010.

This function enables our members to support development activities in their communities. Compared to other alternatives, FHLBank Atlanta LOCs may help to reduce the cost for members to support a bond issuance. In addition to providing credit support for bonds, FHLBank LOCs help to open doors for our members to capture additional business opportunities associated with project financing.

Special Requirements for the LOC for Tax-Exempt Bonds

In addition to the general LOC requirements, the LOC for Tax-Exempt Bonds requires members to also submit the related bond documents, including the trust indenture, offering memorandum, and a copy of the member's LOC.

The member should contact the Bank as early as possible prior to bond issuance to finalize application documents.

For more information about FHLBank Atlanta LOCs, please call the Bank's Funding Desk at 1.800.536.9650, ext. 8011, or visit our website at www.fhlbatl.com.