

Federal Home Loan Bank of Seattle Standby Letters of Credit

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Web Seminar Presentation
January 23, 2008



Agenda

- Standby LOC Basics
- Purposes and Structures
- Public Funds Applications
- Documentation
- Future Applications: Tax-Exempt Bond Support

Standby Letters of Credit

- The Seattle Bank may issue a standby letter of credit or confirm a member's standby letter of credit, in favor of a third-party beneficiary.
- Payment is made by the Seattle Bank to the beneficiary upon presentation of specific documentation.
- Seattle Bank Standby LOCs are:
 - Top tier-rated
 - Irrevocable
- Seattle Bank Standby LOCs are *not* a commercial letter of credit.

Why Seattle Bank Standby LOCs?

- High credit rating acceptable for most credit enhancement purposes
- Low cost
- Efficient execution
- Flexible collateral options
- Seattle Bank remains in background

Seattle Bank Standby LOC Uses

	Residential Housing	Community Lending	Asset/ Liability Management	Liquidity or Other Funding

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Credit/ Collateral	Line usage, standard collateral	Standard & investment grade munis	Line usage, standard collateral	Line usage, standard collateral

To Terminate Prior to Stated Maturity

Submit the following documentation to the Seattle Bank:

- Original sight draft
- Original letter of credit
- Termination request letter from the beneficiary
- Member acknowledgement of the beneficiary's interest

LOCs for Public Funds Collateral

- One of the most popular uses for a Seattle Bank Standby LOC is to collateralize public funds deposits in lieu of available securities or surety bonds.
- There is a pricing advantage for LOCs pledged for public funds of 5 bps, as the fee is only 15 bps/annum, and it is prorated.
- Advantages of using LOCs for public funds include:
 - Ease of use
 - Ability to dictate specific time limit
 - No deterioration or fluctuation in value versus pledged securities
 - Competitive pricing

Standby LOCs as Collateral for Public Funds

	Department	Contact/Title	Phone	Beneficiaries	Comments
AK	Alaska Permanent Fund Corp.	Julie Hamilton Dir. of Finance	907.796.1535	Alaska Permanent Fund	LOCs collateralize credit enhanced CDs
HI	Dept. of Budget & Fin.	Scott Kami Administrator	808.586.1612	State of Hawaii County of Maui City of Honolulu	Statute mentions FHLBank LOCs
MT	Div. Of Banking & Fin. Inst.	Bob Fitzsimmons Dep. Commissioner	406.841.2920		Statute mentions FHLBank LOCs
OR	Oregon State Treasurer	Darren Bond Dir. of Finance	503.378.4000		Statute specifies FHLBank LOCs
WA	Office of the Treasurer	Nancy Adams Administrator	360.902.9077	Public Deposit Protection Comm.	Statute specifies FHLBank LOCs
WY	Wyoming State Treasurer	Lucinda Braden Accountant	307.777.7297	WY State Treas. Big Horn S.D. City of Sheridan	Statute specifies FHLBank LOCs

Documentation

- Standby Letter of Credit Application
- Letter of Credit Agreement
- Irrevocable Standby Letter of Credit
- Sight Draft
- CIP/EDF Application, if for community lending purpose

APPLICATION FOR STANDBY LETTER OF CREDIT - EXAMPLE

ATTN: Federal Home Loan Bank of Seattle

DATE: _____, 20____

In accordance with and subject to the terms and conditions of, that certain Advances, Security and Deposit Agreement, entered into between the undersigned Member _____ and the Federal Home Loan Bank of Seattle ("Bank"), the undersigned Member hereby applies for:

An irrevocable Standby Letter of Credit for its account in the amount of \$_____.

or

Letter of Credit Confirmation (Reaffirm the beneficiary and purpose below)

The undersigned authorized officers of Member certify that, in accordance with a resolution duly adopted by the Board of Directors or other governing body of the undersigned Member, a certified copy of which resolution has heretofore been submitted to the Bank or is hereto attached, they are authorized to apply to the Bank for this Standby Letter of Credit.

- 1. BENEFICIARY.** The Bank is requested to issue the Standby Letter of Credit in favor of:
(Full name of the beneficiary) _____ (Attention) _____
(Street address) _____ (City, State, Zip Code, Fax #) _____
- 2. PURPOSE.** The underlying obligation for which the Standby Letter of Credit is to be issued and for which it will be used by Member is as follows (attach additional sheets if necessary): _____
- 3. EFFECTIVE DATE AND TERMINATION DATE.** The Standby Letter of Credit shall be issued effective as of _____, 20____. To be honored, drafts must be presented for payment to the Bank on or before _____, 20____. If renewable, the final maturity date is _____, 20____.
- 4. ADDITIONAL FEATURES.** If the Standby Letter of Credit is amortizing, transferable or if multiple draws are allowed, describe the circumstances that apply and provide additional information or schedules (attach additional sheets if necessary): _____
- 5. DELIVERY.** If the Standby Letter of Credit is to be transmitted to someone other than the beneficiary, please provide the name and address:

By _____ (Authorized Signer, Resolution for Transacting Business with the FHLBank of Seattle)

Phone _____

Email _____

Institution _____

NOTE: Applications must be received by 1:00 PM PT. **Please fax to 206.340.2497.**

STANDBY LETTER OF CREDIT AGREEMENT - EXAMPLE

The Federal Home Loan Bank of Seattle, its successors or assigns ("Seattle Bank"), upon request by, (Member Bank) may issue Irrevocable Letters of Credit for the account of the Customer ("Letters of Credit," and each a "Letter of Credit"). This Agreement, together with the provisions of the Advances, Security and Deposit Agreement, as amended from time to time, between the Customer and the Seattle Bank ("Advances Agreement") and the Seattle Bank's Credit Policy, sets forth the covenants, terms and conditions of the Seattle Bank's and the Customer's respective rights and obligations relating to Letters of Credit. All capitalized terms used but not elsewhere defined in this Agreement shall have the respective meanings ascribed to such terms in the Advances Agreement.

The Customer agrees:

1. Upon issuance of any Letter of Credit, including without limitation Letter of Credit No. XXXX, the Seattle Bank's customary fee will be charged by the Bank to the Customer.
2. The Seattle Bank is authorized to pay, on demand, any draft against a Letter of Credit ("Draft") without verification by the Seattle Bank of non-performance by the Customer and without any other investigation ("Payment").
3. Upon Payment of a Draft, the Seattle Bank immediately will deduct the full amount thereof, plus its then customary fee and any other charges or expenses paid or incurred by the Seattle Bank, from the Customer's Demand Account with the Bank. Any Flexible Balance Advance or other obligations created thereby will be governed by and will be in accordance with all of the provisions of the Advances Agreement and the then current Credit Policy of the Bank. The Customer will maintain a Demand Account during all times that any Letter of Credit is outstanding.
4. Applications for Letters of Credit will be accepted only in accordance with the Seattle Bank's then current, existing Credit Policy. The Seattle Bank will deduct the total amount of all outstanding Letters of Credit from the Customer's Borrowing Capacity, and the total outstanding Letters of Credit will be included in the computation of the Customer's advances/assets and advances/Bank stock ratios in determining compliance with the Seattle Bank then current, existing Credit Policy.
5. Letters of Credit issued and outstanding, and all Payments resulting therefrom, will be fully collateralized as an Indebtedness as defined and as provided in the Advances Agreement, and shall be subject to all of the terms and conditions of the Credit Policy of the Bank then in effect. The Customer will indemnify and save harmless the Seattle Bank from any and all liability or damage, including litigation expenses and costs, if any, incurred by reason of the issuance of Letters of Credit and/or Payment of any Draft and/or the interpretation and enforcement of any applicable provisions of the Advances Agreement or this Agreement.
6. This Agreement shall be construed and enforced according to the laws of the State of Washington and is subject to any applicable provisions of the Federal Home Loan Bank Act and Regulations of the Federal Housing Finance Board, as amended from time to time.

(MEMBER BANK)
AUTHORIZED SIGNATURE / DATE
PRINTED NAME AND TITLE
AUTHORIZED SIGNATURE / DATE
PRINTED NAME AND TITLE

This Agreement must be signed by two signers authorized by a certified copy of the Resolution for Transacting Business with Federal Home Loan Bank of Seattle. Please return signed copy to:

Federal Home Loan Bank of Seattle
Customer Funding
1501 Fourth Avenue, Suite 1800
Seattle, WA 98101-1693

The Seattle Bank recommends a copy be retained for your records.

Irrevocable Letter of Credit No. XXXX

9/29/2006

ABC
1234 Main Street
Seattle WA 98101
Attn:

For the account of (Member Bank) we hereby open in your favor our Irrevocable Letter of Credit No. XXXX "Credit") for an amount not exceeding a total of U.S. **\$150,000.00** effective **9/29/2006** and expiring on **10/10/2007**.

Funds under this Credit are available to you against your sight draft(s) on us, completed in substantially the form attached as Exhibit A, for all or any part of this Credit.

We will promptly honor all drafts drawn in compliance with the terms of this Credit if received on or before the expiration date at 1501 Fourth Avenue, Seattle, Washington 98101-1693. Drafts presented at our office at the address set forth above no later than 10:00 a.m. shall be honored on the date of presentation, by payment in accordance with your payment instructions that accompany each such draft. If requested by you, payment under this Credit may be made by wire transfer of immediately available funds to your account as specified in your draft.

This Letter of Credit is not transferable without the express prior written consent of the Federal Home Loan Bank of Seattle.

This Letter of Credit shall be governed by and subject to the Uniform Customs and Practice for Documentary Credits (1993 revision), International Chamber of Commerce Publication No. 500 ("UCP"), and to the extent not inconsistent with the UCP, the laws of the State of Washington.

Federal Home Loan Bank of Seattle
By _____

**Exhibit A to Irrevocable Letter of Credit
No. - Example
SIGHT DRAFT**

DATE OF EXECUTION

Pay on demand to ABC the sum of U.S. \$_____.

This draft is drawn under your Irrevocable Letter of Credit No. XXXX .

By

ABC

SIGNATURE

PRINTED NAME AND TITLE

Pending LOC Legislation

Why expand permitted Standby LOC applications?

- Members could compete for underwriting of tax-exempt financings.
- Fannie Mae, Freddie Mac, Ginnie Mae, FHA, and VA have been permitted since 1984 under the IRC to provide credit support.
- At that time, FHLBanks did not offer Standby LOCs for tax-exempt bonds. Now they do – for tax-exempt housing bonds (in addition to taxable bonds).

Why expand permitted LOC applications?

Would allow the FHLBanks to enhance:

- Tax-Exempt Municipals
- Industrial Development Bonds
- Private Activity Bonds

Pending LOC Legislation HR 2091, SB 1963

- Would allow FHLBank support of members' LOCs for tax-exempt bonds.
- Would help local communities raise funds for water treatment facilities, bridges and other infrastructure improvements, industrial development, healthcare facilities, fire stations, parking facilities, long-term care for the elderly, schools, and other important activities.
- Members would be able to assist these issuers by offering FHLBank LOCs without triggering the loss of the bonds' tax-exempt status. Obtaining a performance guarantee from a FHLBank further lowers costs for communities.

Pending LOC Legislation National Supporters

- American Bankers Association (ABA)
- America's Community Bankers (ACB)
- Council of Development Finance Agencies (CDFA)
- Council of Federal Home Loan Banks
- Council of State Community Development Agencies (COSCDA)
- Independent Community Bankers of America (ICBA)
- Mortgage Bankers Association (MBA)
- National Association for County Community and Economic Development (NACCED)
- National Association of Counties (NACO)

Pending LOC Legislation National Supporters

- National Association of Development Organizations (NADO)
- National Association of Homebuilders (NAHB)
- National Association of Higher Educational Facilities Authorities (NAHEFA)
- National Association of Towns and Townships (NATaT)
- National Community Development Association (NCDA)
- National Council of Health Facilities Finance Authorities (NCHFFA)
- National League of Cities
- The U.S. Conference of Mayors

How to Help Expand Standby LOC Permitted Usage

- A draft letter is available for members wishing to write their Senators and Congressional representatives in support of this legislation.
- Contact your Relationship Manager for a copy.

In Summary

- Standby Letters of Credit provide a low-cost and top-tier rated vehicle to assist in securing contractual agreements with third parties.

- Major uses for LOCs include:
 - Providing liquidity or other funding (i.e., collateralize public deposits)
 - Assisting with asset/liability management: interest rate swaps
 - Facilitating community lending: credit enhancement
 - Supporting residential housing finance: taxable/tax-exempt bond financing

Questions?

Contact your Seattle Bank Relationship Manager:

- John Blizzard 206.340.2344 jblizz@fhlbsea.com
- John Biestman 206.340.2473 johnbi@fhlbsea.com
- Debra Davis 206.340.8663 ddavis@fhlbsea.com
- Charlie Eiseman 206.340.2359 ceisem@fhlbsea.com
- Jim Mochizuki 206.340.2345 jimm@fhlbsea.com

Federal Home Loan
 **Bank Seattle**