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FEDERAL HOUSING FINANCE BOARD

Revision to the Policy Guidelines for FHLBank
Standby Letters of Credit to Authorize their Use
in Support of Community Investment Activities

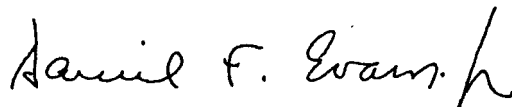
WHEREAS, the authority of the FHLBanks to issue standby letters of credit is derived from their statutory authority to make advances to their members; and

WHEREAS, Section 10(i)(2)(c) of the Federal Home Loan Bank Act, as amended by FIRREA, directs the Federal Home Loan Banks ("FHLBanks") as part of their "community-oriented mortgage lending" to make advances that "finance commercial and economic development activities that benefit low- and moderate- income families or activities that are located in low- and moderate-income neighborhoods"; and

WHEREAS, the Finance Board intends to encourage the broadest possible support of financing of commercial and economic development activities that benefit low- and moderate-income families or activities that are located in low- and moderate-income neighborhoods;

NOW, THEREFORE, BE IT RESOLVED, that the Finance Board hereby adopts the attached Policy Guidelines for FHLBank Standby Letters of Credit which have been amended to authorize the use of FHLBank standby letters of credit and confirmations in support of financing of commercial and economic development activities that benefit low- and moderate-income families or activities that are located in low- and moderate-income neighborhoods.

By the Federal Housing Finance Board



Daniel F. Evans, Jr., Chairman

POLICY GUIDELINES FOR FHLBANK
STANDBY LETTERS OF CREDIT

1. The Federal Home Loan Banks may issue or confirm standby letters of credit, on behalf of member institutions, to facilitate the following types of members' business transactions with third parties:

- a. purchase of, or commitment to purchase, mortgage loans where the letter of credit functions as a performance bond and is restricted to housing-related purposes;
- b. collateralization of public unit deposits;
- c. collateralization of Internal Revenue Code Section 936 deposits;
- d. interest rate swaps;
- e. others that encourage or assist the asset/liability management of member institutions; and
- f. other transactions that promote home financing, housing activity, or financing of commercial and economic development activities that benefit low- and moderate-income families or activities that are located in low- and moderate-income neighborhoods.

FHLBank standby letters of credit and confirmations shall only be used in conjunction with tax-exempt bonds or notes when the issues are designed to promote housing or the financing of commercial and economic development activities that benefit low- and moderate-income families or activities that are located in low- and moderate-income neighborhoods.

FHLBank confirmations shall not be used solely to promote a member's letter of credit program or to increase a member's profitability for this fee-based service.

2. Standby letters of credit and confirmations shall be issued only in accordance with the following conditions:

- a. the member's application shall be accepted only in accordance with the FHLBank's credit policy;
- b. the standby letter of credit shall contain a specific expiration date or be for a definite term, and the term shall not exceed that prescribed for FHLBank advances in the case of interest rate swap transactions and a maximum of ten (10) years for all other transactions;

- c. if renewable, the standby letter of credit shall be conditioned upon the member meeting the FHLBank's credit criteria at the time of renewal; confirmation renewals will be subject to the same approval requirements;
 - d. the standby letter of credit/confirmation shall be collateralized fully at the time of issuance and included in the computation of the member's advances/assets and advances/FHLBank capital stock ratios, unless the member deposits funds in a segregated account under the complete dominion of the FHLBank to cover the amount of the letter of credit;
 - e. if transferable, the transfer shall be only to an agreed upon party;
 - f. the disbursement process under the letter of credit/confirmation shall be linked directly to the member's account at the FHLBank;
 - g. outstanding letters of credit and confirmations shall be reflected on the FHLBank's balance sheet as contingent liabilities;
 - h. the FHLBank shall not be required to examine any documentation supporting a beneficiary's demand for payment;
 - l. the FHLBank will develop written policies consistent with these guidelines that outline the criteria the Bank will utilize in monitoring the growth and underwriting the risk of its letter of credit portfolio;
 - j. the District Banks Directorate will report to the Board monthly on Bank System letters of credit outstanding; and
 - k. the Director, District Banks Directorate, will be responsible for interpretation of this policy.
3. Any exceptions to these policy guidelines shall require prior Board approval.