

Letters of Credit

A Shareholder's Guide to Using
FHLBank Atlanta Letters of Credit





Shareholder Testimonials

USAmeriBank

CONFIRMING LETTER OF CREDIT

FHLBank Atlanta provided a confirming Letter of Credit on behalf of USAmeriBank as credit support for the construction of 98-room Courtyard by Marriott hotel for The Downtown Redevelopment Authority of Phenix City, Alabama. The hotel was a part of the riverfront development along the Chattahoochee River, the new home of a white water rafting course.

This type of credit facility provided the developer an attractive interest rate, which enhanced the profitability of the project. It also provided USAmeriBank a very attractive fee as well as a strong deposit relationship from the bond proceeds and the operating accounts for the hotel. Subsequently, USAmeriBank completed another hotel project for the same developer using the same credit facility. The FHLBank Atlanta Letter of Credit is a very attractive product for both the customer and USAmeriBank.


O.D. ALSOBROOK, III, SENIOR VICE PRESIDENT/CITY PRESIDENT, USAMERIBANK, AUBURN, AL

Quantum National Bank

PUBLIC UNIT DEPOSIT LETTER OF CREDIT

We've worked diligently over the last three years to expand and deepen business relationships with local public entities. FHLBank Atlanta is helping us do that with their Letters of Credit. Quantum Bank has one of the highest net interest margins in the state of Georgia and solutions like the Letter of Credit contribute to these margins. The Letters of Credit helped us free up funds to pursue various growth strategies on both sides of the balance sheet.

DANA LITMAN, EXECUTIVE VICE PRESIDENT, CHIEF FINANCIAL OFFICER, AND CHIEF RISK OFFICER, QUANTUM NATIONAL BANK



FHLBank Atlanta’s Letters of Credit (LOC) provide shareholders with an efficient, low-cost way to attract and secure agreements with third parties. FHLBank Atlanta may issue an LOC to a third-party beneficiary on a shareholder’s behalf to function as an independent guaranty of additional credit and collateral for the shareholder’s obligation.

Contents

- Why Use Letters of Credit? 2
- Purposes for Letter of Credit Issuance 2
- How Shareholders are Using Letters of Credits 3
- Types of FHLBank Atlanta Letters of Credits 4
- Public Unit Deposits 6
- Other Letter of Credit Uses 6
- Requirements 7
- Credit and Collateral Requirements 7
- Letter of Credit Terms 8
- Letter of Credit Pricing 8
- Getting Started 9

Reference

- Where Are the Forms Located? 10
- Steps to Filling Out the Agreement for Letter of Credit and Security Agreement 10
- Steps to Filling Out the Application for a Standby Letter of Credit 11

Why Use a Letter of Credit

- Enables shareholders to offer their customers access to highly-rated financing and reduce their financing costs
- Places community banks on a level playing field with larger-rated institutions, helping them compete for business they may not otherwise be able to win
- Mitigates risk for the beneficiary with FHLBank Atlanta providing the LOC
- Generates valuable fee income
- Attractive pricing

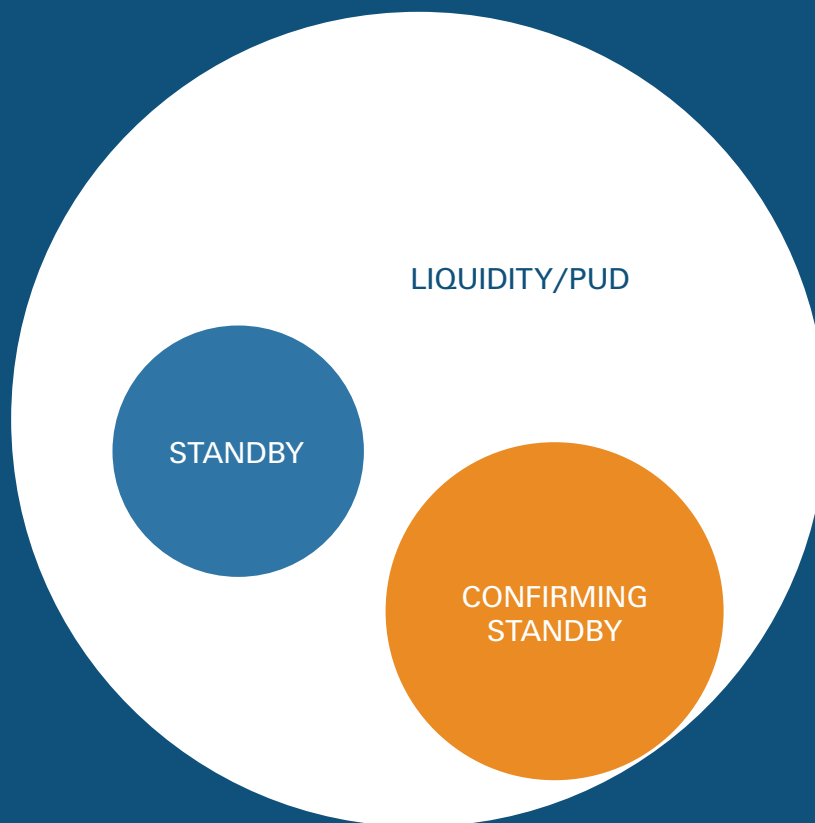
Purposes for Letter of Credit Issuance

- Provide liquidity or other funding
- Assist in asset/liability management
- Facilitate residential housing finance
- Assist in facilitating community lending



Shareholders use LOCs for a variety of transactions, including to collateralize Public Unit Deposits (PUDs), provide credit enhancement for bond financing, secure insurance premiums, and more.

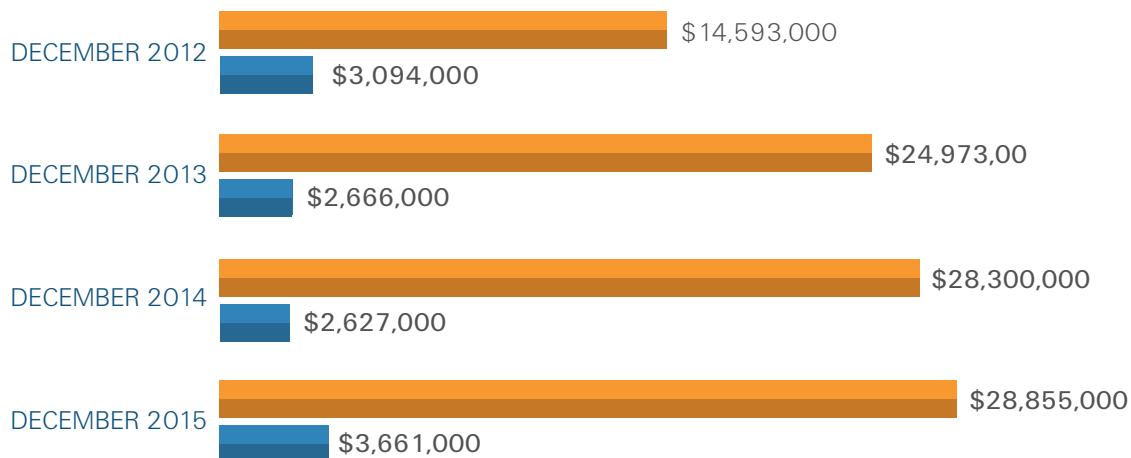
How Shareholders are Using Letters of Credit



Letters of Credit Usage

(Dollars in thousands)

■ PUD LOCs
■ NON-PUD LOCs



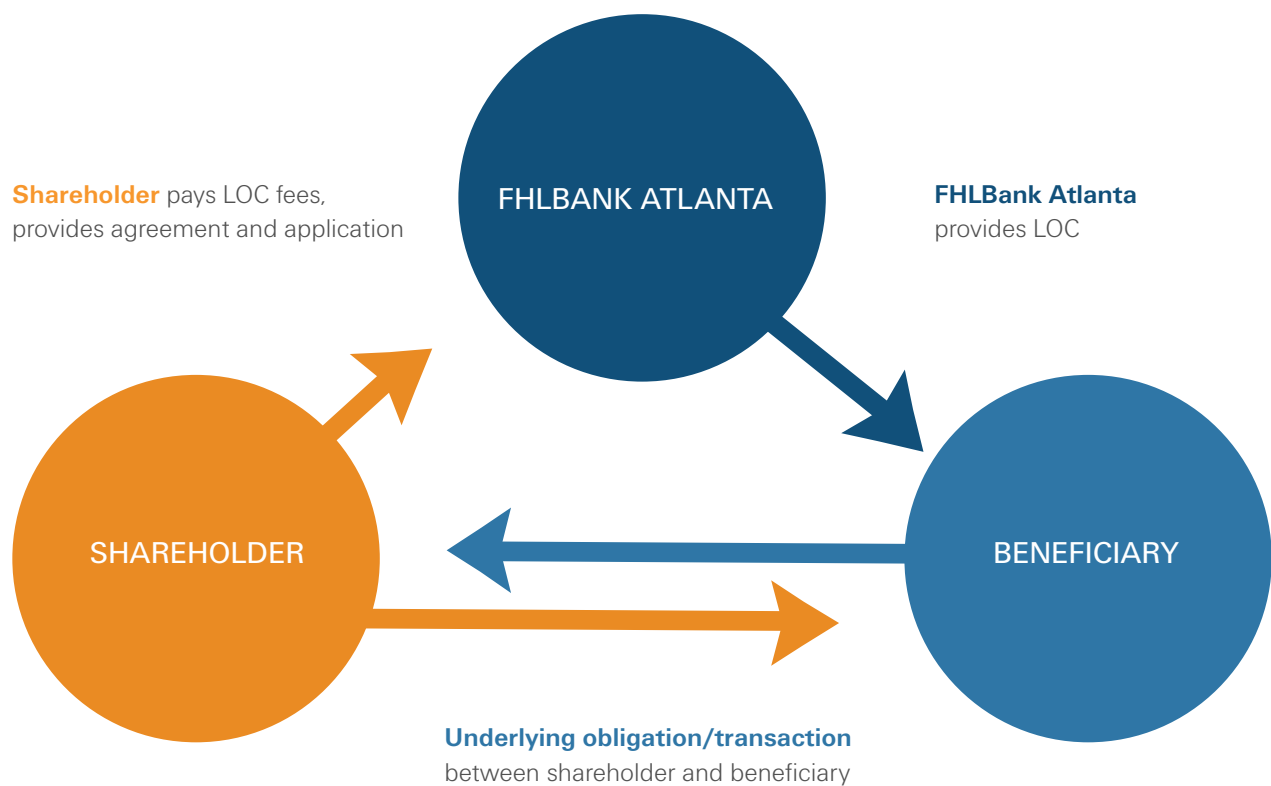
Types of FHLBank Atlanta Letters of Credit

Standby Letters of Credit

A Standby LOC functions as an independent guaranty of additional credit and collateral for a shareholder's obligation.

- Issued by FHLBank Atlanta to a third-party beneficiary on behalf of a shareholder
- The shareholder must have an obligation to the beneficiary
- Most common usage is PUD LOCs

How Does a Traditional Standby Letter of Credit Work?



Confirming Letter of Credit

FHLBank Atlanta's Confirming LOC — sometimes called a “wrap”— can help secure improved credit terms for community-focused bonds, enhancing the bond’s credit rating, reducing borrowing costs, and improving marketability. In addition, FHLBank Atlanta can offer technical and transactional support on the issuance of the LOC and help shareholders connect with bond attorneys, investment bankers, and other professionals as needed in these transactions.

Shareholder Benefits:

Generate Fee Income

- Fee income is being compressed by market pressures. LOCs can help shareholders generate valuable fee income and boost profitability.

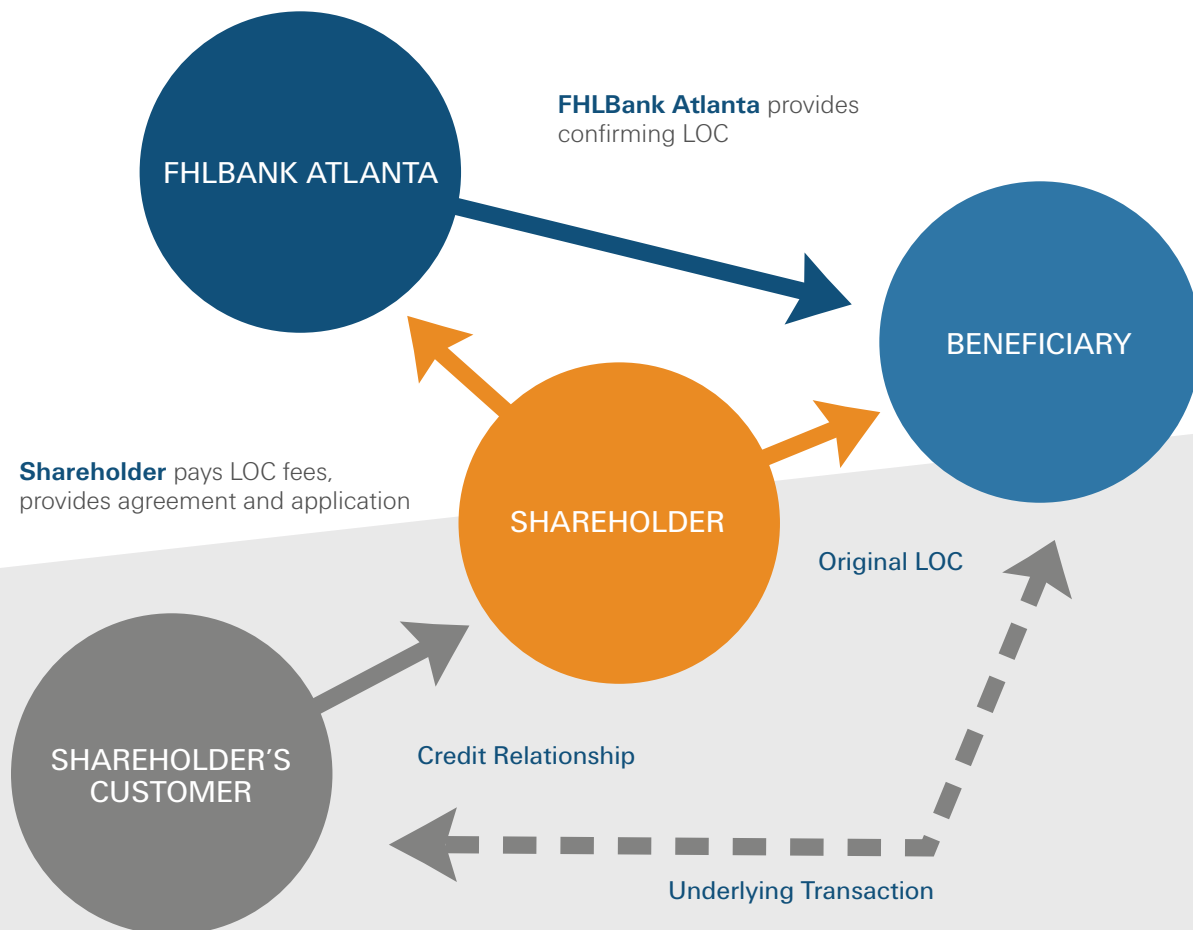
Establish and Retain Business Relationships

- Compete against larger, rated financial institutions
- Compete against low fixed rates or other financing structures
- Generate additional revenue from cross-selling to new or retained customers
- Compete on knowledge and structure instead of pricing as the customers’ trusted advisor

Reduce Interest-rate Risk

- Meet customers’ financing needs through an off-balance sheet transaction
- Minimize interest-rate risk while helping customers reduce their borrowing costs

How Does a Confirming Letter of Credit Work?



Public Unit Deposit Letter of Credit

- Use LOCs to collateralize PUDs that exceed the level covered by FDIC
- Valuable alternative to pledging securities
- Fee of only nine basis points

Boost Earnings with Letters of Credit*

Before Using LOC

Secure PUD with \$5mm, 5-year agency note yielding 1.05%
Income: $\$5\text{mm} \times 1.05\% = \$52,500$

After Using LOC

Secure PUD with \$5mm FHLBank Atlanta LOC at cost of 9bps and lend \$5mm in 1-4 first mortgages at 4.00%
Income: $\$5\text{mm} \times (4.00\% - 0.09\%) = \$195,500$

Shareholder Benefit

$\$195,500 - \$52,500 =$ **\$143,000 additional income when using FHLBank Atlanta LOC**

*Rates and calculations are for illustrative purposes only.

Other Letter of Credit Uses

- Leases for office space
- Insurance premiums
- Credit enhancement for customer transactions
- MasterCard® balance collateral

Letter of Credit Requirements

- Issued at the request of FHLBank Atlanta shareholder institutions
- Shareholder must have sufficient credit availability and collateral to cover 100 percent of the LOC amount
- No commercial LOCs
- LOCs generally subject to ISP98 and the laws of the State of Georgia
- No activity-based stock purchase required
- If LOC is drawn, the shareholder's obligation may be converted into an advance upon the shareholder's purchase of activity-based stock

Credit and Collateral Requirements

- Credit availability is reduced by the amount of the LOC
- All LOCs must be collateralized the same as an advance
- 100 percent collateralized for the entire term of the LOC
- Terms and conditions are subject to requirements set forth in the Member Products and Services Guide (MPSG)



Letter of Credit Terms

Annually Renewable LOC

- Terms of up to 10 years
- Renewable every 12 months up to the final expiration date
- Non-PUD fees based on size of LOC

Letter of Credit Pricing

Pricing Tiers for Renewable LOC

Less than \$1 million42.5 basis points
\$1 million to \$5 million30 basis points
\$5 million to \$25 million20 basis points
\$25 million to \$50 million15 basis points
Greater than \$50 million10 basis points
PUDs	9 basis points

Additional Pricing Terms

- There is a minimum fee of \$25 per month
- Fees are billed monthly in arrears
- When an LOC is terminated, final fees are collected on the termination date
- Pricing and terms are subject to review and to requirements set forth in the Bank's MPSG

For additional information about FHLBank Atlanta's LOCs, please call Patrick Rutledge at 404.888.8328 or the Funding Desk at 1.800.536.9650, extension 8011.

Getting Started

Complete the Letter of Credit and Security Agreement

- See Reference section on how to fill out the agreement
- FHLBank Atlanta must have the original agreement on file

Complete the LOC Application

- See Reference section on how to fill out the application
- For confirming LOCs ONLY — provide copy of shareholder's signed LOC to their customer
- For bond-related LOCs ONLY — provide copy of bond-related documents (trust indenture, offering memorandum); additional time will be required for bond and other complex transactions
- Send Application to FHLBank Atlanta at least three business days prior to LOC effective date

Visit our website www.fhlbatl.com or FHLBAccess® for forms and more information.

For assistance with applications or forms, please call Patrick Rutledge at 404.888.8328 or the Funding Desk at 1.800.536.9650, extension 8011.



Reference

Where are the Forms Located?

All LOC forms are located on both FHLBAccess and our website www.fhlbatl.com.

- Agreement for Letter of Credit and Security Agreement
- Application for a Standby Letter of Credit
- Request to Amend or Terminate Standby Letter of Credit
- Cancellation and Indemnity Agreement for Lost Letters of Credit

Steps to Filling Out the Agreement for Letter of Credit and Security Agreement

1. The original agreement only needs to be submitted once. Going forward, FHLBank Atlanta will keep it on file for future LOCs.
2. The agreement must be signed by an FHLBank Atlanta authorized signer and must include the signature of a witness to attest on the designated line at the bottom of the page.
3. Insert the full name and address of your institution on the appropriate lines as well as the date.
4. Make sure that your institution's seal is affixed on the signature page.
5. **PLEASE NOTE:** FHLBank Atlanta needs the original agreement on file before an LOC can be issued. Please overnight the signed, original agreement to the address below:

Federal Home Loan Bank of Atlanta
1475 Peachtree Street, N.E.
Atlanta, GA 30309
Attention: Advances Operations
6. Once the properly completed original agreement is received, FHLBank Atlanta can issue LOCs on the shareholder's behalf.

FURTHER ASSISTANCE

For any additional questions, please call the Funding Desk at 1.800.536.9650, ext. 8011.

Steps to Filling Out the Application for a Standby Letter of Credit

- Make sure that the top portion of the form is completed with the shareholder's name and FHLBank Atlanta account number and the date that the paperwork is being filled out (application date).
- The application MUST BE signed by an FHLBank Atlanta authorized signer. The original application is not initially required for processing the LOC.

SECTION 1

This section is for the beneficiary's information.

- Make sure to fill out the section entirely.
- The beneficiary must have a physical street address, an email address, and a fax number listed. This ensures prompt communication with the beneficiary.
- No P.O. Box addresses will be accepted.

SECTION 2

- Enter the notional amount of the LOC.
- The notional amount must be rounded to the nearest dollar.

SECTION 3

- Indicate whether or not the LOC is Not Reducing or Reducing.
- A majority of LOCs are Not Reducing.
- If the LOC is reducing, please provide an amortization schedule with the completed application form.

SECTION 4

In this section, please specify when the LOC will become effective and when it will terminate.

Desired Effective Date: Allow 3-4 business days from when the application is submitted.

Desired Final Expiration Date: This is the date that the LOC will expire or terminate. It should include all extension periods for annually renewing LOCs.
For annually renewing LOCs, please specify the initial expiration date (no later than one year from issuance).

SECTION 5

Please designate the draw schedule for the LOC.

Partial Drawings: Allows the beneficiary to make a draw for less than the full amount of the LOC.

Multiple Drawings: Allows the beneficiary to make more than one draw on the LOC.

FOR EXAMPLE

- Prohibiting both partial and multiple draws enables the beneficiary to make ONLY one draw for the full amount of the LOC.
- Permitting both partial and multiple draws enables the beneficiary to make more than one draw for amounts less than the full amount. The beneficiary is only permitted to draw up to the maximum outstanding amount of the LOC.

SECTION 6

In this section, please designate the purpose for issuing the LOC. These are the four purposes under which our regulator allows FHLBank Atlanta to issue LOCs.

- To assist with facilitating residential housing finance.
- To assist with asset/liability management.
- To assist with facilitating community lending.
- To provide liquidity/other funding.

SECTION 7

In this section, please provide detailed information regarding the underlying transaction.

- This allows FHLBank Atlanta to better understand the transaction and facilitate the approval process.
- If the obligation relates to a bond issuance, please provide a description of the terms using Exhibit A.

SECTION 8

Please indicate whether you are requesting a Standby LOC, which supports PUDs and other direct member obligations, or a Confirming LOC to credit enhance the shareholder's LOC.

SECTION 9

This section explains certain requirements for a draw under the LOC.

SECTION 10/SECTION 11/SECTION 12/SECTION 13

- Please select one of the permitted options for the transferability of the LOC. If transferable, FHLBank Atlanta must provide prior approval.
- Please select one desired day of the month for monthly payments.
- The original LOC will be sent to the beneficiary's address unless special delivery instructions are provided in the application.
- Please provide any special delivery or other instructions in the boxes provided in sections 12 and 13.

SECTIONS 14 - 17

- Please submit applications to Advances Operations at advancesoperations@fhlbatl.com or 404.888.5649 (fax).
- Allow at least 3 business days for processing.
- We may request additional information as needed.

SIGNATURE AND CONTACT

- The application must be signed by an FHLBank Atlanta authorized signer.
- The application should also include a contact name, number, and email address for questions that might arise in connection with processing the application. The contact person for questions may be someone other than the authorized person who signs the application.

FURTHER ASSISTANCE

For any additional questions, please call the Funding Desk at **1.800.536.9650, ext. 8011**



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