

# Case Study: Letters of Credit

April 2021



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# Overview

A letter of credit (LOC) from FHLBank Boston offers an alternative to pledging securities as collateral, improving liquidity and earnings metrics while allowing the member to continue to attract and hold municipal deposits.

## Types of Letters of Credit

- Fixed Balance
- Master Variable Balance
- Refundable Balance
- Variable Balance
- Standby



# Product Usage

Our LOCs support your liquidity, asset/liability management, and housing, community, and economic development activities.

## **Ensures Wide Acceptance for Multiple Purposes**

- Securing public unit deposits
- Credit support for certain tax-exempt bonds and taxable bonds
- Collateral for obligations arising pursuant to an interest-rate swap, interest-rate exchange, or other comparable agreement
- Credit support for other financial obligations
- Guaranteeing contractual performance

# Public Unit Deposits

Efficiently secure deposits made by state governments, municipalities, and other public instrumentalities.

## Pledge Collateral

Decreases on-balance sheet liquidity ratio

Impacts interest-rate risk profile

Impacts earnings

Operational burden

## Utilize Letters of Credit

Guarantees FHLBank Boston will pay PUD beneficiary upon demand

Manages liquidity efficiently

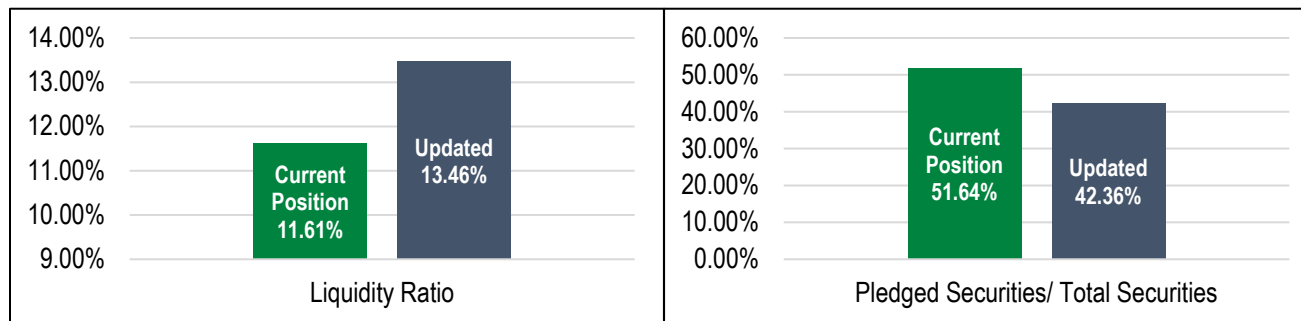
Optimizes earnings through strategic asset purchases



# Public Unit Deposits – Liquidity Impact

LOC Amount (\$000)		\$20,000	
Improve Liquidity			
	Current Position	Replaced Pledged Securities with FHLBank Boston Letters of Credit (LOC)	Liquidity Impact
Liquidity Ratio	11.61%	13.46%	▲ 1.85%
Pledged Securities/ Total Securities	51.64%	42.36%	▲ 9.28%
Transaction PUDs (\$000)	\$7,519		
Nontransaction PUDs (\$000)	\$18,588		
<b>Total PUD (\$000)</b>	<b>\$26,107</b>		
Uninsured (\$000)	\$0		
Total Securities Pledged (\$000)	\$111,222	\$91,222	
Total Securities (\$000)	\$215,372		
Total LOCs at FHLBank Boston (\$000)	\$0	\$20,000	
Total Credit Available (\$000)	\$249,236		
Total Collateral Available (\$000)	\$244,171		
Current Advance Balance	\$3,841	\$23,841	
Remaining Borrowing Capacity	\$240,331	\$220,331	

- Efficient use of liquidity
- Allows pledged securities to become unencumbered so they can contribute to your liquidity rather than detract from it
- Less liquid assets like residential and commercial loans can provide the collateralization for Letters of Credit



Source: FHLBank Boston



# Public Unit Deposits – Earnings Impact

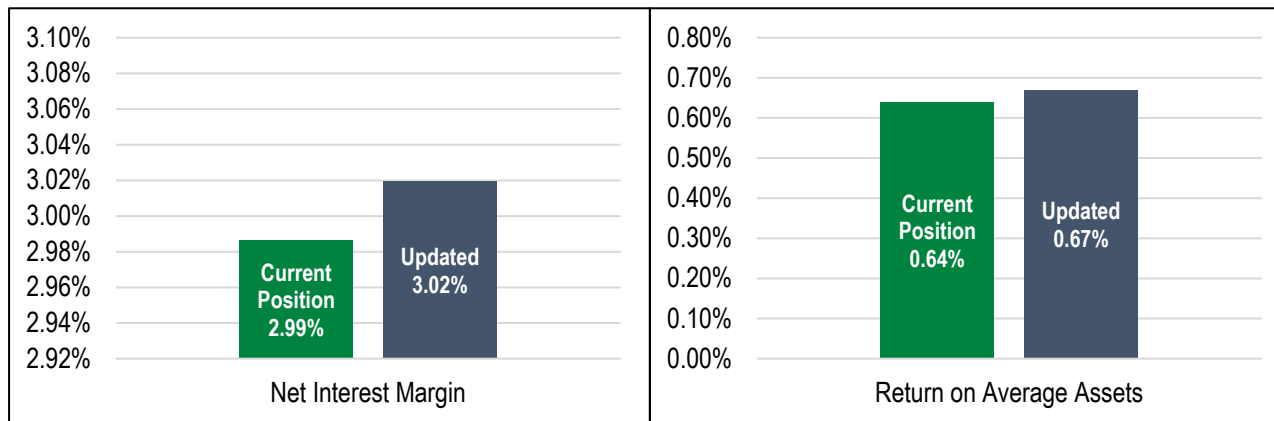
## Improve Earnings

	Current Position	Replaced Pledged Securities with FHLBank Boston Letters of Credit (LOC)	Change
Total LOCs at FHLBank Boston (\$000)	\$0	\$20,000	\$20,000
Securities Collateralizing PUD (\$000)	\$111,222	\$91,222	-\$20,000
Total Securities (\$000)	\$215,372	\$195,372	-\$20,000
Invest in Loans (\$000)	\$0	\$20,000	\$20,000

## Impact to Net Interest Income

Annualized Income on Securities Collateralizing PUD (1.70%) (\$000)	\$1,892	\$1,552	-\$340
Annualized Income on Investment in Loans (3.72%) (\$000)	\$0	\$744	\$744
Letter of Credit Annual Cost (\$000)	\$0	\$23	-\$23
<b>Net Interest Income Impact</b>			<b>\$381</b>

- If securities are purchased to meet pledging needs, LOCs may allow members to reallocate into assets that better meet earnings and asset/liability needs



# Additional Resources Online:

[Using Letters of Credit](#)

[Types of Letters of Credit](#)

[Pricing Schedule for Letters of Credit](#)

[Forms + Applications](#)





# Thank You

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